

Managerial Controls

The background of the image is a vast, blue-toned landscape of mountains and valleys. The mountains are layered, creating a sense of depth, with some peaks appearing more prominent than others. The valleys are filled with a soft, hazy light, suggesting a mist or a clear sky. The overall color palette is a range of blues, from deep navy to a lighter, almost white, hazy blue. The text is overlaid on the center of the image, with the main quote in a large, white, sans-serif font and the attribution in a smaller, white, cursive font below it.

Goals allow you to control the direction of
change in your favor.

Brian Tracy

Learning Outcomes

After studying this chapter, you will be able to:

- Define controlling.
- Discuss the reasons why control is important.
- Explain the planning-controlling link.
- Describe the three steps in the control process.
- Explain why what is measured is more critical than how it's measured.
- Explain the three courses of action managers can take in controlling.
- Define organizational performance.
- Describe three most frequently used measures of organizational performance.
- Contrast feedforward, concurrent, and feedback controls.
- Explain the types of financial and information controls managers can use.
- Describe how balanced scorecards and benchmarking are used in controlling.

What is Control?

Controlling

The process of monitoring activities to ensure that they are being accomplished as planned and of correcting any significant deviations.

The Purpose of Control

To ensure that activities are completed in ways that lead to accomplishment of organizational goals.

Why is Control Important?

As the final link in management functions:

Planning

Controls let managers know whether their goals and plans are on target and what future actions to take.

Empowering employees

Control systems provide managers with information and feedback on employee performance.

Protecting the workplace

Controls enhance physical security and help minimize workplace disruptions.

The Planning–Controlling Link



Symptoms of an Out-Of-Control Company

Lax top management

Absence of policies

Lack of agreed-upon standards

“Shoot the messenger” management

Lack of periodic reviews

Bad information systems

Lack of ethics in the culture

The Control Process



Measuring: How and What We Measure

Sources of Information (How)

- Personal observation
- Statistical reports
- Oral reports
- Written reports

Control Criteria (What)

- Employees
 - Satisfaction
 - Turnover
 - Absenteeism
- Budgets
 - Costs
 - Output
 - Sales

Common Sources of Information for Measuring Performance

	Advantages	Drawbacks
Personal Observation	<ul style="list-style-type: none">• Get firsthand knowledge• Information isn't filtered• Intensive coverage of work activities	<ul style="list-style-type: none">• Subject to personal biases• Time-consuming• Obtrusive
Statistical Reports	<ul style="list-style-type: none">• Easy to visualize• Effective for showing relationships	<ul style="list-style-type: none">• Provide limited information• Ignore subjective factors
Oral Reports	<ul style="list-style-type: none">• Fast way to get information• Allow for verbal and nonverbal feedback	<ul style="list-style-type: none">• Information is filtered• Information can't be documented
Written Reports	<ul style="list-style-type: none">• Comprehensive• Formal• Easy to file and retrieve	<ul style="list-style-type: none">• Take more time to prepare

Comparing

Determining the degree of variation between actual performance and the standard.

Significance of variation is determined by:

- The acceptable range of variation from the standard (forecast or budget).
- The size (large or small) and direction (over or under) of the variation from the standard (forecast or budget).

Taking Managerial Action

Courses of Action

“Doing nothing”

- Only if deviation is judged to be insignificant.

Correcting actual (current) performance

- Immediate corrective action to correct the problem at once.
- Basic corrective action to locate and to correct the source of the deviation.
- **Corrective Actions**
 - Change strategy, structure, compensation scheme, or training programs; redesign jobs; or fire employees

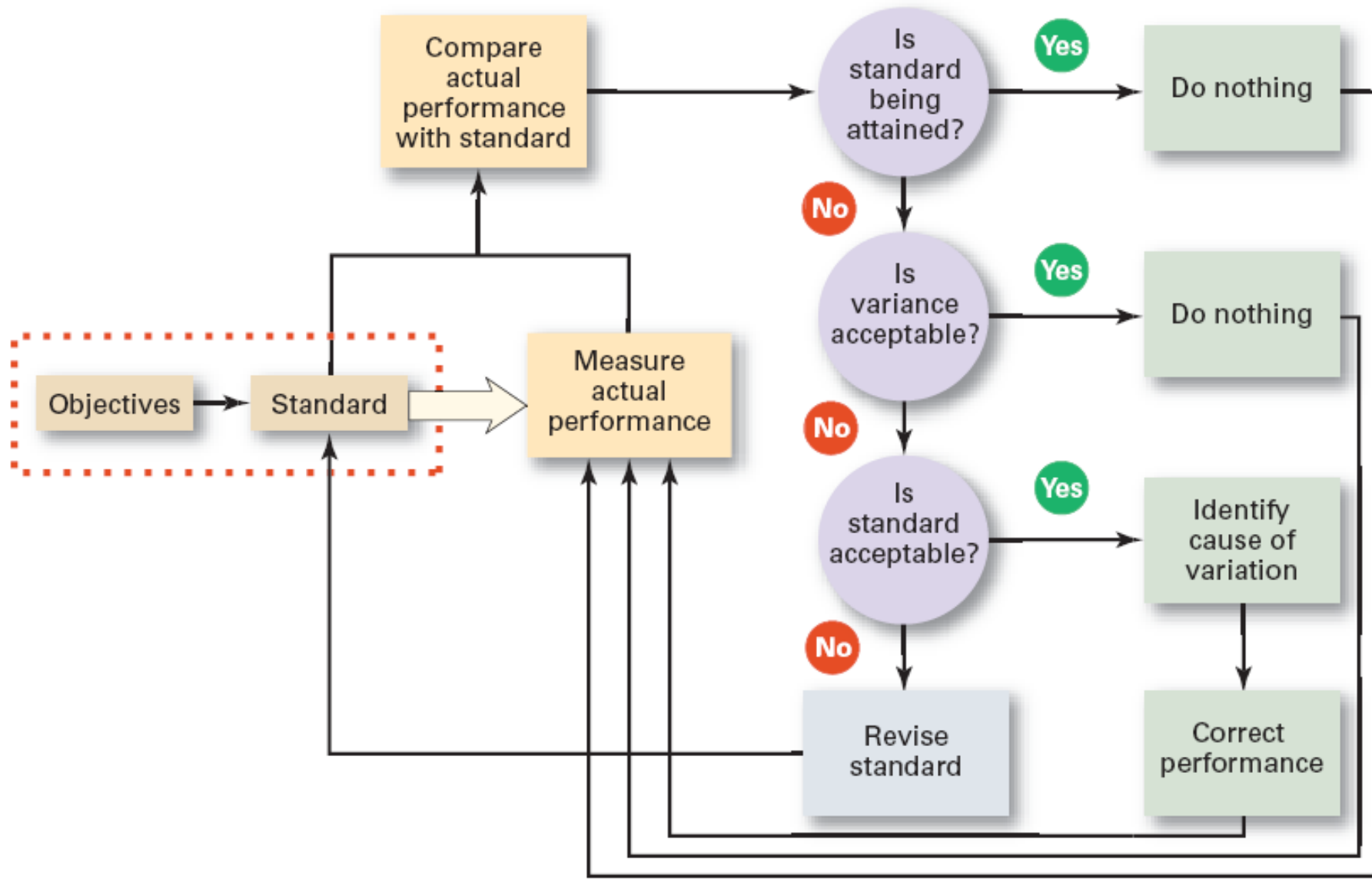
Taking Managerial Action

Courses of Action (Cont'd)

Revising the standard

- Examining the standard to ascertain whether or not the standard is realistic, fair, and achievable.
 - Upholding the validity of the standard.
 - Resetting goals that were initially set too low or too high.

Managerial Decisions in the Control Process



Controlling for Organizational Performance

What Is Performance?

The end result of an activity

What Is Organizational Performance?

The accumulated end results of all of the organization's work processes and activities

- Designing strategies, work processes, and work activities.
- Coordinating the work of employees.

Organizational Performance Measures

Organizational Productivity

Productivity: the overall output of goods and/or services divided by the inputs needed to generate that output.

- Output: sales revenues
- Inputs: costs of resources (materials, labor expense, and facilities)

Ultimately, productivity is a measure of how efficiently employees do their work.

Organizational Performance Measures

Organizational Effectiveness

Measuring how appropriate organizational goals are and how well the organization is achieving its goals.

- **Systems resource model**

The ability of the organization to exploit its environment in acquiring scarce and valued resources.

- **The process model**

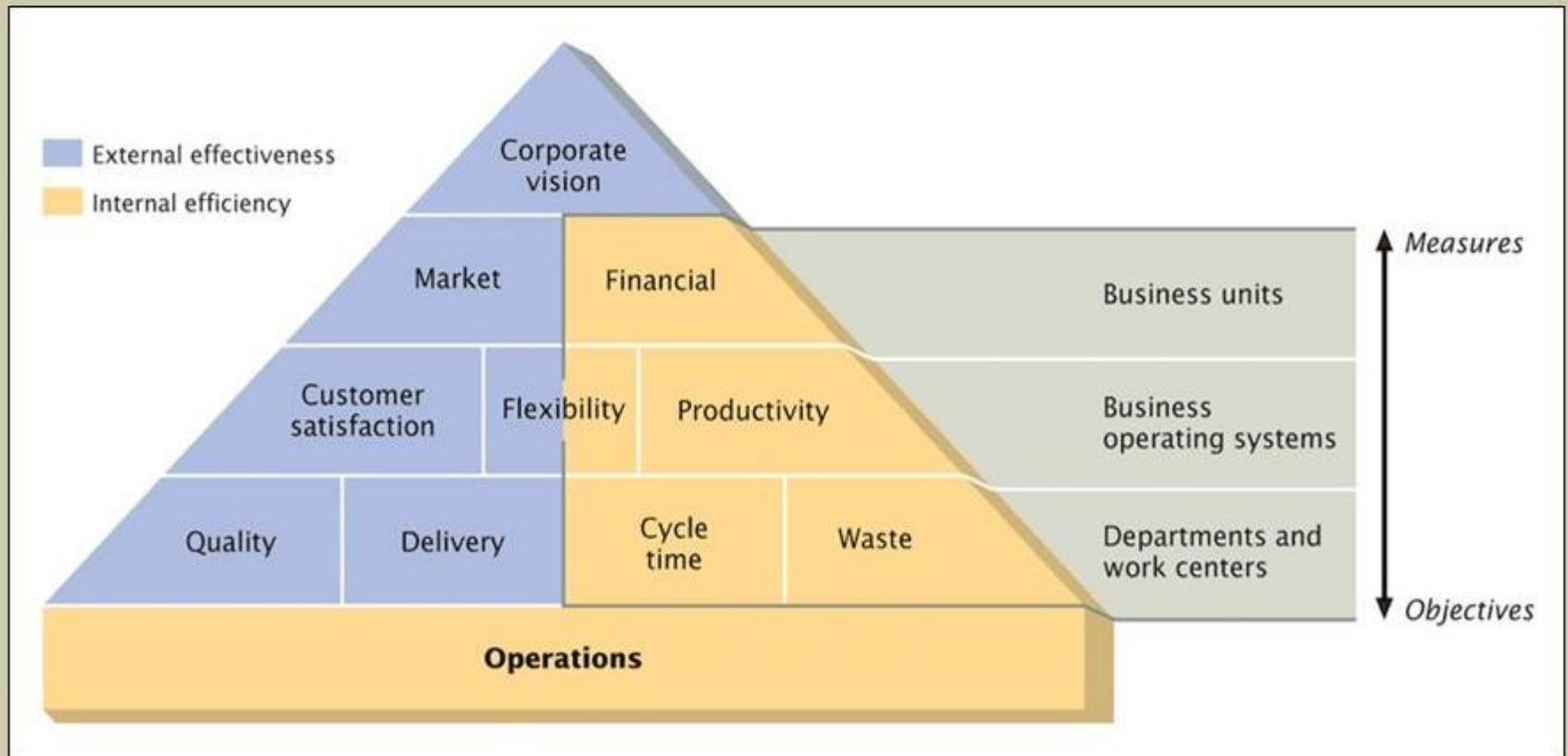
The efficiency of an organization's transformation process in converting inputs to outputs.

- **The multiple constituencies model**

The effectiveness of the organization in meeting each constituencies' needs.

Organizational Performance Measures

The Performance Pyramid for Strategic Control



Source: C. J. McNair, Richard L. Lynch, and Kelvin F. Cross, "Do Financial and Nonfinancial Performance Measures Have to Agree?" *MANAGEMENT ACCOUNTING* published by the Institute of Management Accountants, Montvale, NJ, 72 (November 1990): 30. Copyright by Institute of Management Accountants. Reprinted by permission.

Tools for Measuring Organizational Performance

Feedforward Control

A control that prevents anticipated problems *before* actual occurrences of the problem.

- Building in quality through design.
- Requiring suppliers conform to ISO 9002.

Concurrent Control

A control that takes place while the monitored activity is in progress.

- **Direct supervision:** management by walking around.

Tools for Measuring Organizational Performance (Cont'd)

Feedback Control

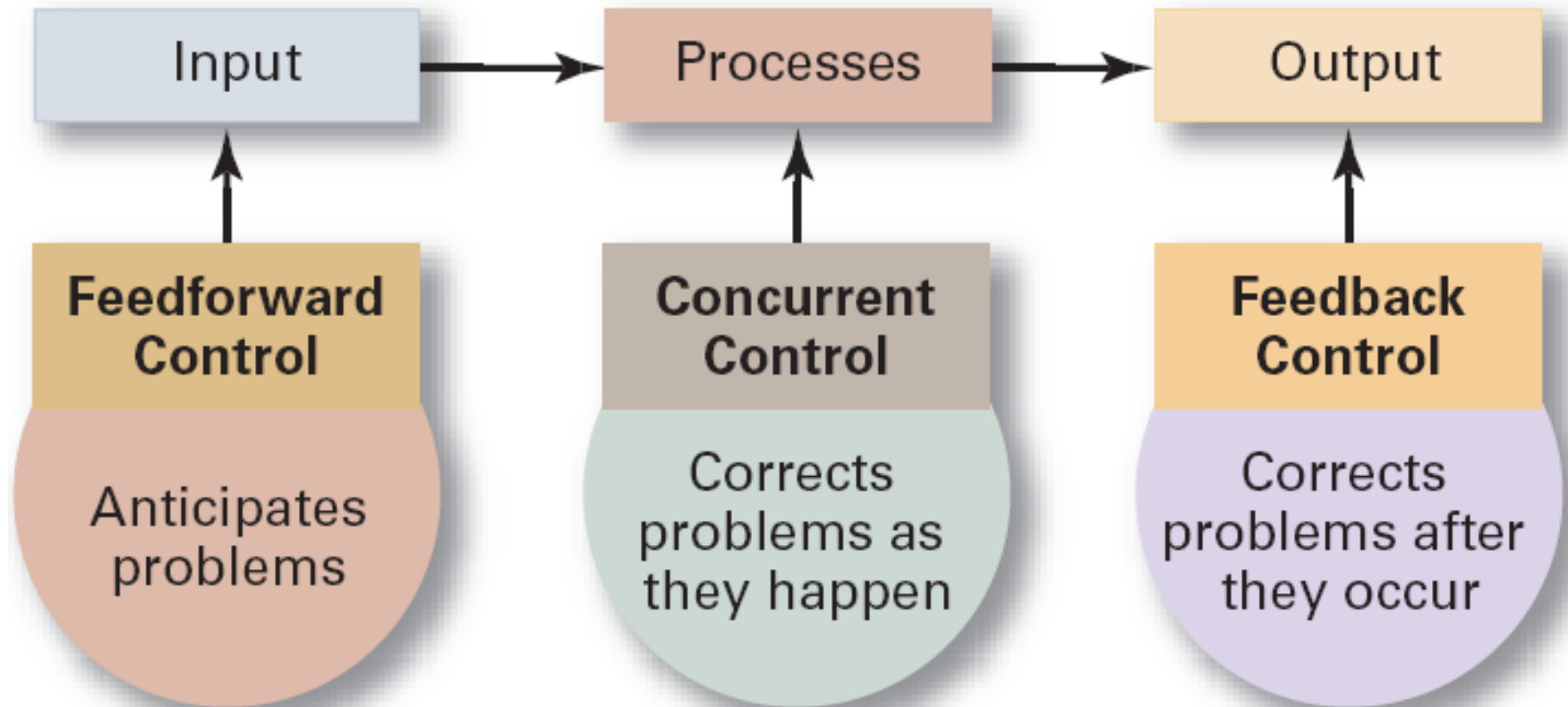
A control that takes place after an activity is done.

- Corrective action is after-the-fact, when the problem has already occurred.

Advantages of feedback controls:

- Provide managers with information on the effectiveness of their planning efforts.
- Enhance employee motivation by providing them with information on how well they are doing.

Types of Control



Tools for Measuring Organizational Performance (Cont'd)

TABLE 10.5 Popular financial ratios

OBJECTIVE	RATIO	CALCULATION	MEANING
Liquidity test	Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	Tests the organisation's ability to meet its short-term obligations
	Acid test	$\frac{\text{Current assets less inventories}}{\text{Current liabilities}}$	Tests liquidity more accurately when inventories turn over slowly or are difficult to sell
Leverage test	Debt-to-assets	$\frac{\text{Total debt}}{\text{Total assets}}$	The higher the ratio, the more leveraged the organisation
	Times-interest-earned	$\frac{\text{Profits before interest and taxes}}{\text{Total interest charges}}$	Measures how far profits can decline before the organisation is unable to meet its interest expenses
Operations test	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 organisation's total assets
Profitability	Profit margin on sales	$\frac{\text{Net profit after taxes}}{\text{Total sales}}$	Identifies the profits that various products are generating
	Return-on-investment	$\frac{\text{Net profit after taxes}}{\text{Total assets}}$	Measures the efficiency of assets to generate profits

How Dana Discovers What its True Costs are



Salaries
\$371,917

Fringes
\$118,069

Supplies
\$76,745

Fixed costs
\$23,614

Total \$590,345

**New
way**

**Activity-
based
costing**

Process sales orders	\$144,846
Source parts	\$136,320
Expedite supplier orders	\$ 72,143
Expedite internal processing	\$ 49,945
Receive supplier quality	\$ 47,599
Reissue purchase orders	\$ 45,235
Expedite customer orders	\$ 27,747
Schedule intracompany sales	\$ 17,768
Request engineering change	\$ 16,704
Resolve problems	\$ 16,648
Schedule parts	\$ 15,390

Total \$590,345

Salaries

Fringes

Supplies

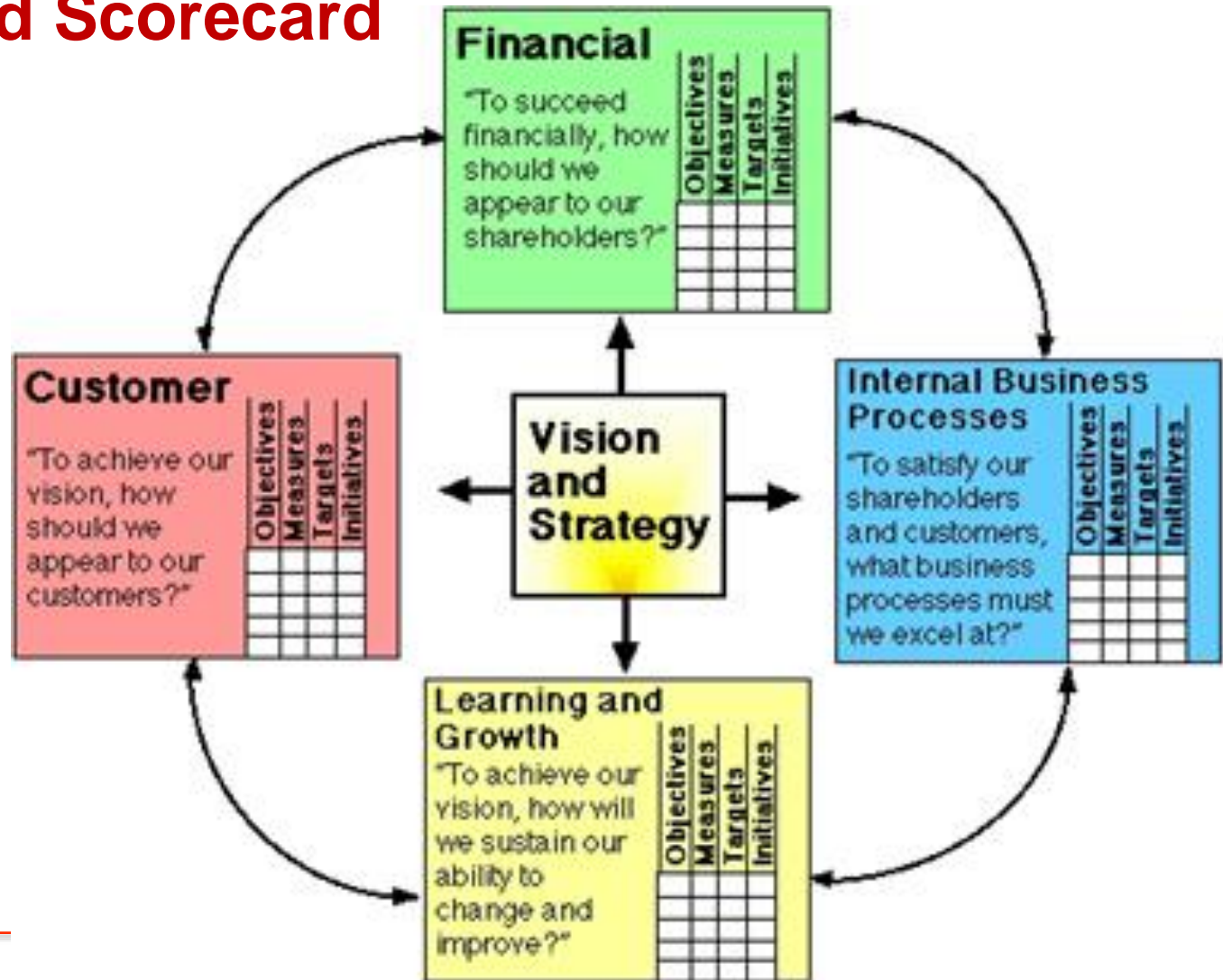
**Fixed
Costs**

Tools for Measuring Organizational Performance (Cont'd)

Balanced Scorecard

- Is a measurement tool that uses goals set by managers in four areas to measure a company's performance:
 - Financial
 - Customer
 - Internal processes
 - Learning and growth
- Is intended to emphasize that all of these areas are important to an organization's success and that there should be a balance among them.

Balanced Scorecard



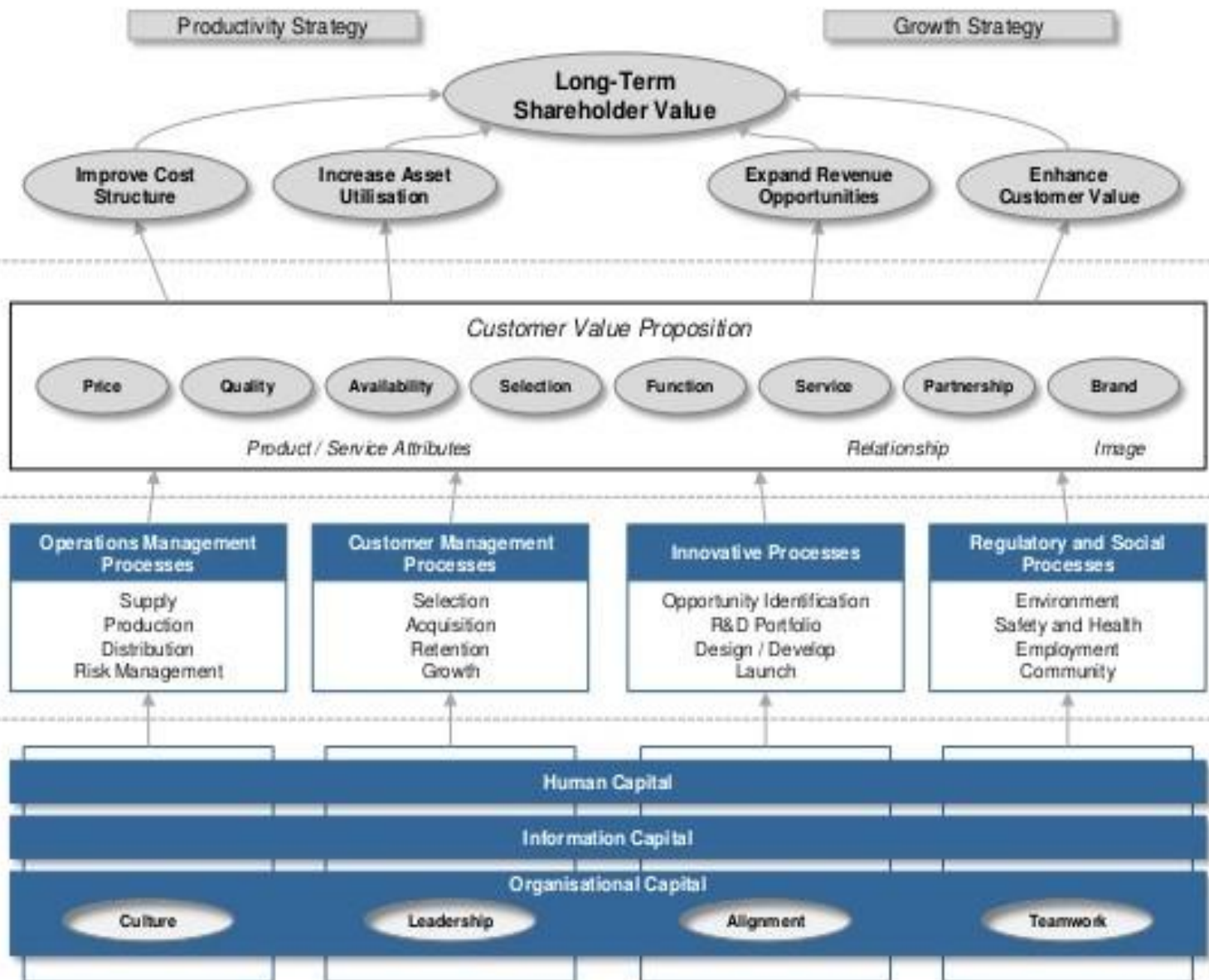
Strategy map

Financial Perspective

Customer Perspective

Internal Perspective

Learning & Growth Perspective



Tools for Measuring Organizational Performance (Cont'd)

Information Controls

Purposes of Information Controls

As a tool to help managers control other organizational activities.

- Managers need the right information at the right time and in the right amount.

As an organizational area that managers need to control.

- Managers must have comprehensive and secure controls in place to protect the organization's important information.

Management Information Systems (MIS)

A system used to provide management with needed information on a regular basis.

- **Data:** an unorganized collection of raw, unanalyzed facts (e.g., unsorted list of customer names).
- **Information:** data that has been analyzed and organized such that it has value and relevance to managers.

Tools for Measuring Organizational Performance (Cont'd)

Benchmarking

Benchmark

- The standard of excellence against which to measure and compare.

Benchmarking

- Is the search for the best practices among competitors or noncompetitors that lead to their superior performance.
- Is a control tool for identifying and measuring specific performance gaps and areas for improvement.

TABLE 10.6 Steps in implementing a successful internal benchmarking best practices program

1. *Connect best practices to strategies and goals.* The organisation's strategies and goals should dictate what types of best practices might be most valuable to others in the organisation.
2. *Identify best practices throughout the organisation.* Organisations must have a way to find out what practices have been successful in different work areas and units.
3. *Develop best practices reward and recognition systems.* Individuals must be given an incentive to share their knowledge. The reward system should be built into the organisation's culture.
4. *Communicate best practices throughout the organisation.* Once best practices have been identified, that information needs to be shared with others in the organisation.
5. *Create a best practices knowledge-sharing system.* There needs to be a formal mechanism for organisational members to continue sharing their ideas and best practices.
6. *Nurture best practices on an ongoing basis.* Create an organisational culture that reinforces a 'we can learn from everyone' attitude and emphasises sharing information.

Source: Based on T. Leahy, 'Extracting diamonds in the rough', *Business Finance*, August 2000, pp. 33–7.

Acknowledgments

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thank you!