# Chapter 8

# Controlling

## Objectives

**After studying this chapter, the student should:**

- Understand what is the Controlling?

- Describe 3 types of control

- Explain the roles of controls

- Describe the control process

- Describe the characteristics of an effective control system

# What is controlling?

**Controlling**

- Process of regulating organizational activities so actual performance conforms to expected organizational standards and goals.

- Managers develop standards, compare performance against them, and ensure corrective actions are taken as needed.

- All managers have to implement the controlling function even their companies implemented all activities as planned.

- Manager only know whether his/her department implemented appropriately plans if they evaluate completed activities and compare actual performances with expected outcomes.

- An effective control system ensures that all activities are completed in ways to reach organizational objectives efficiently.

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# What is controlling? (Cont.)

**03 ways to design control system**

**Control system is a set of mechanisms designed to increase the probability of meeting organizational standards and goals**

- *Market control* – focuses on market mechanisms to establish standards for control system
  - For example: competitive price, relative market share between competitors, etc.
  - This method is popularly used by organizations
    - Clear and specific products/services
    - Facing with fierce competitions
  - Matsushita: different departments (consumer goods, industrial products, industrial machines) are evaluated based on profit margin created by each department.

# What is controlling?

**03 ways to design control system (cont.)**

- ***Bureaucratic control*** – focuses on power and authorities within organization and based on rules, policies, supervision, etc.
  - ➤ Depends on standardization of activities, clear job description and other administrative mechanisms such as budget, schedule, rewards system to ensure that employees exhibit appropriate behavior and meet performance standards

  - ➤ BP: Even the managers of department were delegated some autonomies and freely manage their department by their own style, they still have some limitations on budget and comply all common guidelines and policies of the company.

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# What is controlling? (cont.)

**03 ways to design control system (cont.)**

*Clan control* **– behavior of employees is regulated by common values, traditions, beliefs and religion, that are shared among employees**

- ➤ Example: rewards for good performance are parties and vocations
- ➤ Applied in organization that has team works and rapid changes of technologies

- ■ Almost organization is based on these 3 methods to design its effective control system

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# Roles of controls

**Controls are important to assist managers with 5 challenges:**

**i) Coping with uncertainty: arises because organizational goals are set for future (things may not go to plan). Many environmental factors produces changes in customer demand, tech., raw material availability, etc.**

- In control system development, managers watch specific activities, reacting quickly to significant environmental changes

**ii) Detecting irregularities: helps to detect irregularities such as poor quality, cost overruns or staff turnover.**

- Early detection saves time and money by stopping minor problems becoming major ones.

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# Roles of controls (cont.)

## iii) Identifying opportunities:

- Identifies situations where things go better than expected, alerting management to opportunities

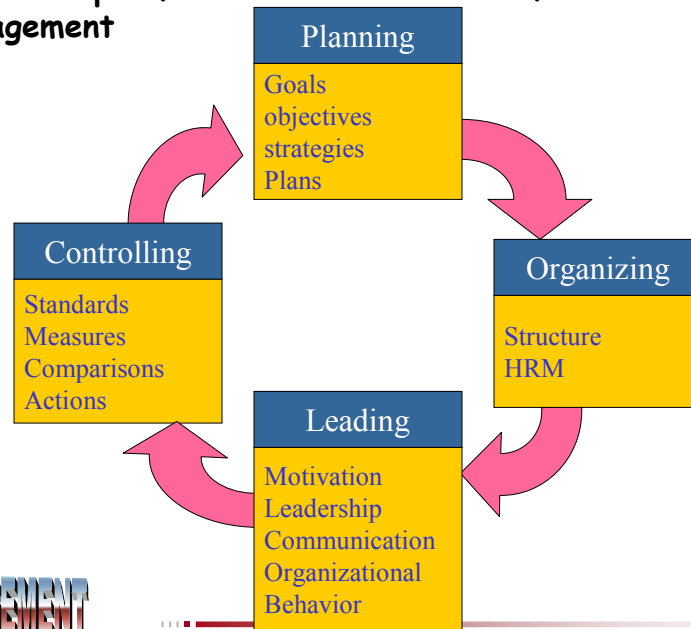## iv) Handling complex situations:

- Due to the growth of organization, controls help to coordination and to ensure synchronization.

**v) Decentralizing authority: gives managers more latitude (scope). It helps managers to move decision making lower in the organization but still monitor progress.**

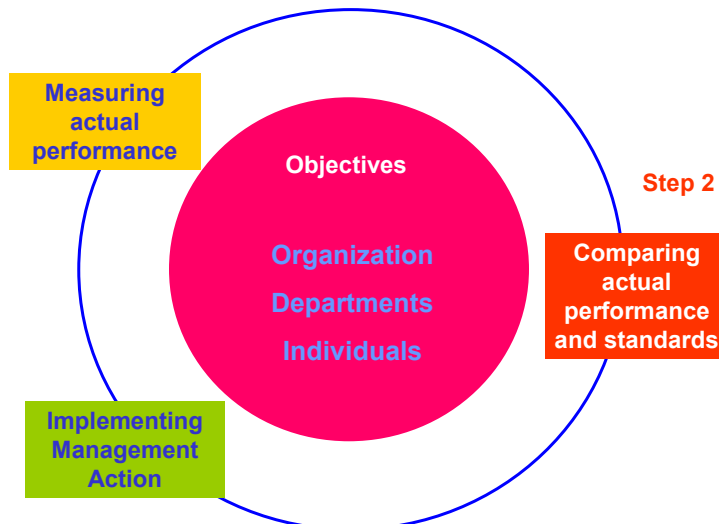**MANAGEMENT**

**Relationships of controls to the other functions of management**

**Planning**
Goals
objectives
strategies
Plans

**Organizing**
Structure
HRM

**Leading**
Motivation
Leadership
Communication
Organizational
Behavior

**Controlling**
Standards
Measures
Comparisons
Actions

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# The Control Process

Step 1

**Measuring actual performance**

**Objectives**

**Organization**

**Departments**

**Individuals**

Step 2

**Comparing actual performance and standards**

**Implementing Management Action**

Step 3

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# The Control process

## Including 3 steps

- Measuring actual performance, comparing the actual results with the standards, and implementing managerial actions to correct the differences

- Assumption of standards on task results have been set up in advance
  - ➢ Objectives have been established in the planning process

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# The Control Process

## Measuring the actual performance

- *Methods of measurement:* Based on 4 information sources that the managers used
  - ➢ *Individual observation* – provides information have not been "selected" or judged by other people.
    - All tasks are observed by the manager.
    - Can collect information through faces, voices, etc.
    - *Manage by walking around* (MBWA): the manager walk directly to the production plant, face-face meet the staff, and exchange information and see what is occurring.
    - Disadvantages: - is distorted by subjectivity of controller
      - ✓ *Taking time to implement*
      - ✓ *Having bad impacts because the staff thought that the manager does not trust them.*

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# The Control process (cont.)

## Measuring the actual performance (cont.)

- *Methods of measurement* (cont.)
  - *Statistical reports* – use quantitative results, do statistics to measure the actual performance.
    - Easy to imagine the performance and relationship between factors through tables, charts and figures.
    - *Disadvantages* –
      - ✓ There is some activities that can be not measured
      - ✓ Ignoring some other important subjectivities
  - *Oral/verbal report* – through meetings, conferences, tel.,
    - Can be the most effective way to implement the control in the "virtual" environment
    - Rapidly collect information, having feedbacks and allowing the explanation
    - Thanks for technology development, it is easy to transfer data to the written documents, this will help for later reference
    - Disadvantage – information have been treated subjectively in the view of reporter.

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# The Control Process (cont.)

## Measuring the actual performance (cont.)

- *Written report* – slow, but comprehensive and concise rather than oral reports
  - It is easy for storage and reference later

- The comprehensive control system should use the combination of these 4 methods of gathering information and data

# The Control Process (cont.)

## Contents of measurement

- Control criteria are more important than control methods. If there is a wrong selection of control criterion will lead to the serious consequences

- Some control criteria can be applied for all managerial situations:
    - satisfaction, absenteeism and turnover
    - Maintain costs within limited budget

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# The Control Process (cont.)

**Contents of measurement**

- The control system should cover the variety of actions to have different evaluation criteria:
    - Managing production unit: productivity, rate of faulty products, rate of returned goods, etc.
    - Managing administration unit: number of documents typed per day, number of solved problems, etc.
    - Managing marketing unit: market share, average price, number of customers approached, etc.

- It is difficult to measure some activities through quantitative parameters (task results of researcher in the lab)
    - Almost activities can be grouped in objective criteria that can be measured
    - If it is impossible for quantitative measuring, it is necessary to measure through qualitative method
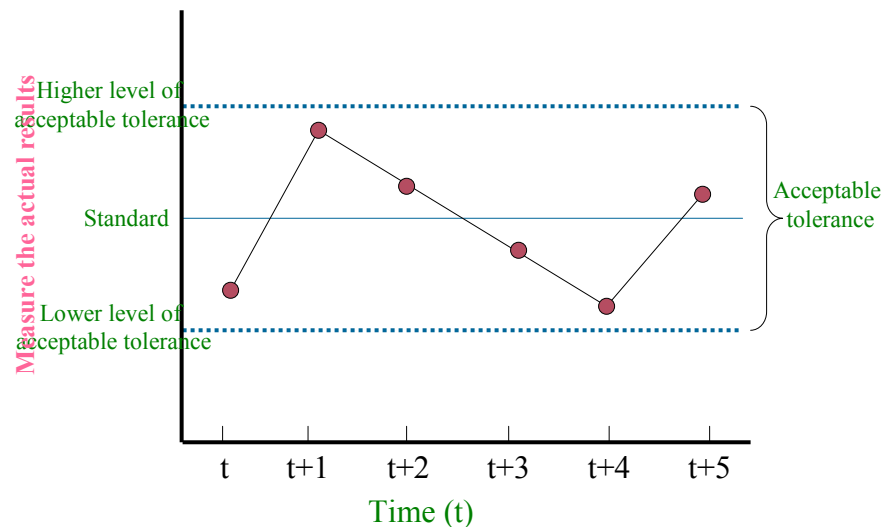
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# The Control Process (cont.)

**Comparing the actual performance to standards**

- Identifying the level of differences between actual performance and given standards

- Identifying the acceptable errors/differences – for those who are over the tolerance it is necessary to examiner

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# Identifying the acceptable tolerance



Higher level of acceptable tolerance

Standard

Lower level of acceptable tolerance

Measure the actual results

Acceptable tolerance

t    t+1    t+2    t+3    t+4    t+5

Time (t)

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# Sales volume of agents in the Eastern state in July

| Brand name | Standard* | Actual* | Over (lower)* |
|------------|-----------|---------|---------------|
| Heineken | 1,075 | 913 | (162) (-15%) |
| Molson | 630 | 634 | 4 |
| Irish Amber | 800 | 912 | 112 |
| Victoria Bitter | 620 | 622 | 2 |
| Labatt's | 540 | 672 | 132 |
| Corona | 160 | 140 | (20) |
| Amstel Light | 225 | 220 | (5) |
| Dos Equis | 80 | 65 | (15) |
| Tecate | 170 | 286 | 116 (+68%) |
| Total | 4,300 | 4,464 | 164 |

* 100 keg

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# The Control Process (cont.)

**Implementing management actions**

- *Take corrective action as necessary* – when standards are not met, managers must assess why and take corrective action.
  - ➢ Changing strategies, structure, treatment policies, training program, job redesign, or firing staff
  - ➢ *Immediate corrective action* – correct immediately to help the task come back to the right track
  - ➢ *Basic corrective action* – identifying the reasons of differences
    - Repairing the sources of differences
  - ➢ An effective manager usually analyses the differences, and will consider between cost and benefits brought by this activities.

# The Control Process (cont.)

## Implementing management actions

- *Adjust standards and measures as necessary* – differences caused by unrealistic standards
    - The differences raised from criteria not from implementation, it is necessary to correct them
    - Can meet some troubles when reducing the standards
        - When staff or a team does not achieve the given objective, the natural reaction is to ask for reducing given targets.

## Control process is continuously implemented between measurement, comparison and implementation steps

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# Control types

**Feed-forward control (pre-control)**

- Preventing forecasted errors/problems
    - McDonald's sent experts on quality control to the new branches to help the farmers studying how to plant the potatoes, guide the people to produce the high quality breads
    - Conducting orientation training courses for new staff, new students etc.
    - Maintain airplanes, machines, facilities, etc.
- It regulates inputs to ensure that they meet standards necessary for transformation process.
- Requires full and exact information , it is difficult to fulfill this requirement

**Concurrent control**

- Regulates ongoing activities to ensure that they conform to organizational standards
- Direct supervision: when the manager directly supervises his/her staff, he/she can supervise concurrently the activities of employees and make corrective actions as necessary
    - Electronics and computer parts (MS Word)
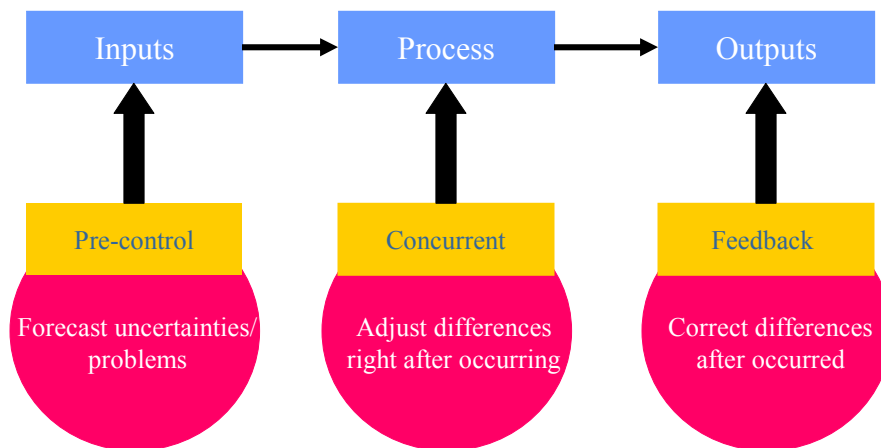
# Control types (cont.)

## Feedback Control

- Occurred after activities are completed.

- Regulates product or service after completion to ensure final output meets organizational standards and goals.

- its differences can cause the waste or damages

- is the most common control type
  - Can be the only control type for some activities
    - Cash inflow of financial reports shows the decrease of revenue

- has two significant advantages
  - Providing meaningful information on the efficiency of planning
    - If the errors are small, the plan has been in right track
    - If the errors are big, these information can be used as a base for taking corrective activities or developing new plans
  - Help to motivate employees
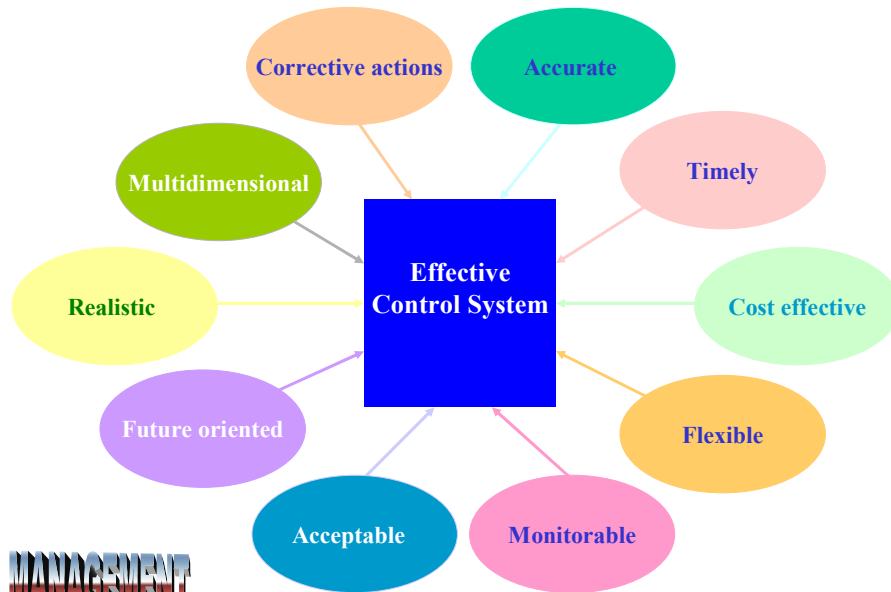    - Everyone wants to know the results of her/his tasks, the evaluation of the manager

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# Control Types (Cont.)

| Inputs | → | Process | → | Outputs |

Pre-control — Forecast uncertainties/ problems

Concurrent — Adjust differences right after occurring

Feedback — Correct differences after occurred

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# Characteristics of an effective control system



**Corrective actions**

**Accurate**

**Multidimensional**

**Timely**

**Realistic**

**Effective Control System**

**Cost effective**

**Future oriented**

**Flexible**

**Acceptable**

**Monitorable**

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# Questions for review

1. Describe the roles of controls.
2. Compare control types.
3. Explain the relationships between controls and other management functions.
4. Describe the Control Process.
5. List 4 methods for data collection
6. Compare the pros and cons of pre-control, concurrent and feedback control methods.

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