



Management

ELEVENTH EDITION

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CHAPTER 18 | Introduction to Controlling

LEARNING OUTCOMES

- **Explain** the nature and importance of control
- **Describe** the three steps in the control process
- **Explain** how organizational performance is measured
- **Describe** tools used to measure organizational performance
- **Discuss** contemporary issues in control

What Is Control?

- **Controlling** - the process of monitoring, comparing, and correcting work performance.
- The Purpose of Control
 - To ensure that activities are completed in ways that lead to the 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.

Exhibit 18-1: Planning-Controlling Link



What is the Control Process?

- **Control process** - a three-step process of measuring actual performance, comparing actual performance against a standard, and taking managerial action to correct deviations or inadequate standards.

The Control Process

- The Process of Control
 1. Measuring actual performance
 2. Comparing actual performance against a standard
 3. Taking action to correct deviations or inadequate standards

Exhibit 18-2: 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

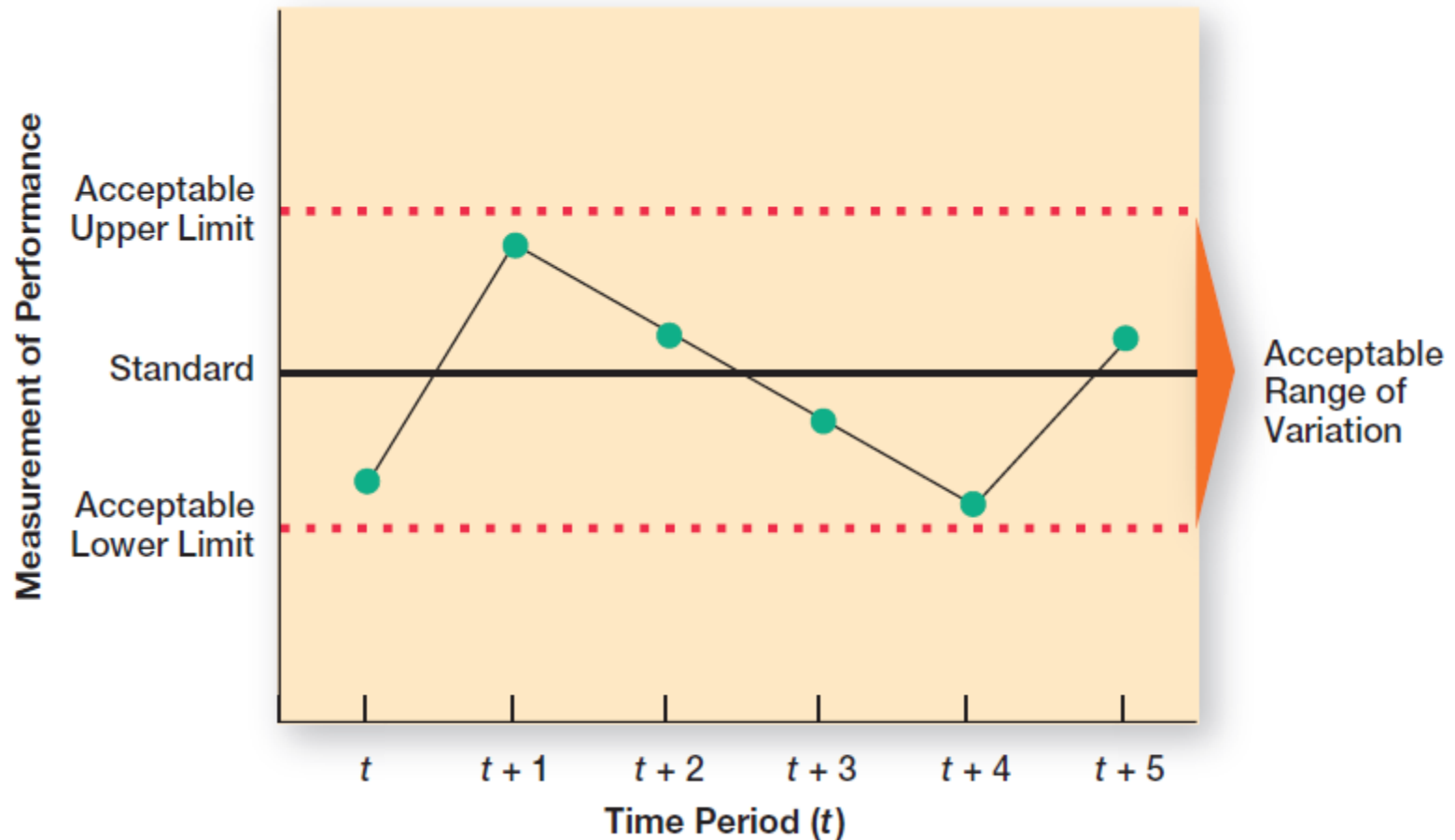
Exhibit 18-3: Sources of Information for Measuring Performance

	Benefits	Drawbacks
Personal Observations	<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 Actual Performance Against the Standard

- Determining the degree of variation between actual performance and the standard
- **Range of variation** - the acceptable parameters of variance between actual performance and the standard.

Exhibit 18-4: Acceptable Range of Variation



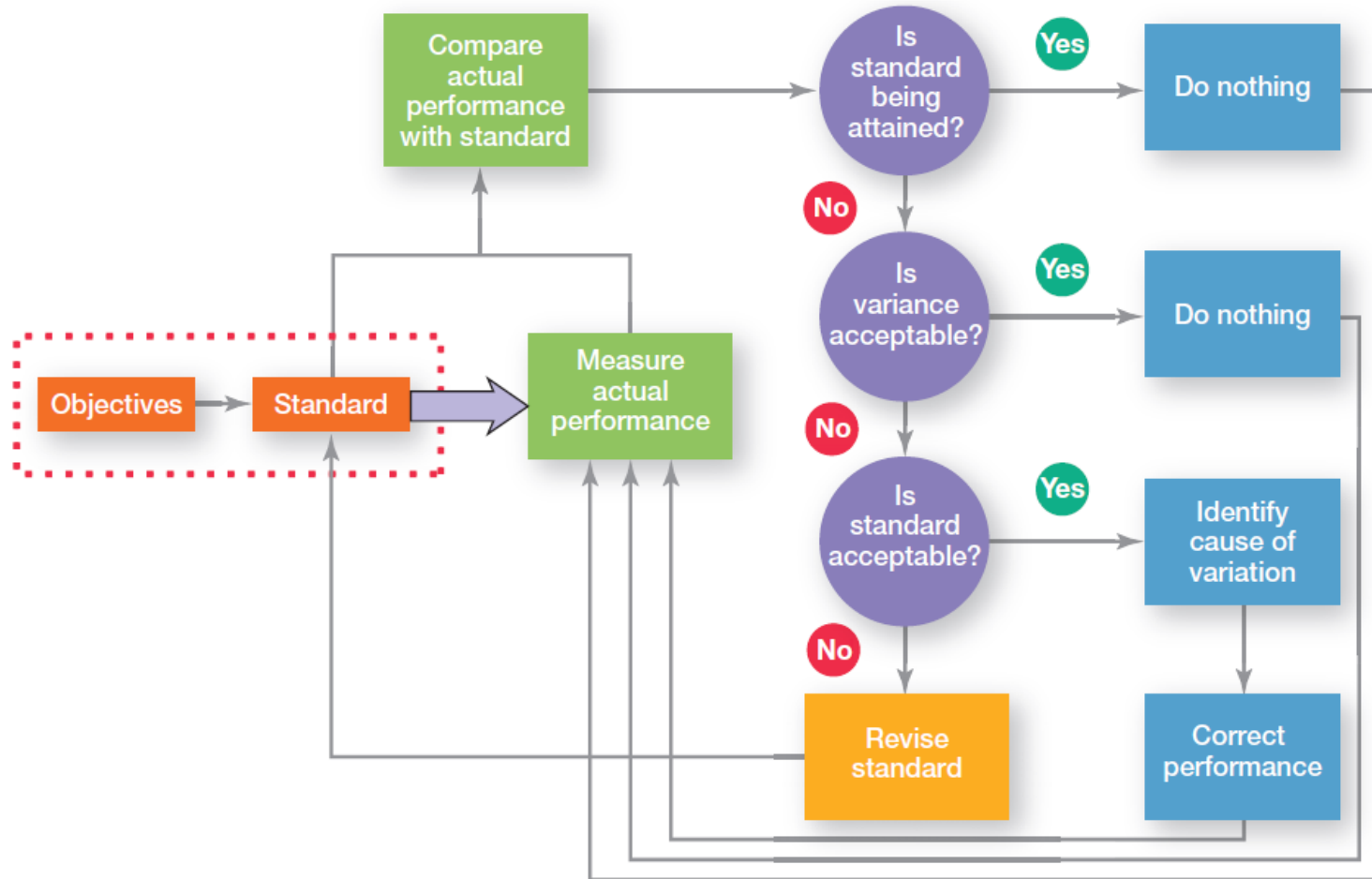
Taking Managerial Action

- **Immediate corrective action** - corrective action that corrects problems at once in order to get performance back on track.
- **Basic corrective action** - corrective action that looks at how and why performance deviated before correcting the source of deviation.

Exhibit 18-5: Green Earth Gardening Supply — *June Sales*

Product	Standard	Actual	Over (Under)
Vegetable plants	1,075	913	(162)
Perennial flowers	630	634	4
Annual flowers	800	912	112
Herbs	160	140	(20)
Flowering bulbs	170	286	116
Flowering bushes	225	220	(5)
Heirloom seeds	540	672	132
Total	3,600	3,777	177

Exhibit 18-6: Managerial Decisions in the Control Process



What Is Organizational Performance?

- **Performance** - the end result of an activity.
- **Organizational performance** - the accumulated results of all the organization's work activities.

Measures of Organizational Performance

- **Productivity** - the amount of goods or services produced divided by the inputs needed to generate that output.
- **Organizational effectiveness** - a measure of how appropriate organizational goals are and how well those goals are being met.

Exhibit 18-7: Popular Industry and Company Rankings

Fortune (www.fortune.com)

Fortune 500

25 Top MBA Employers

Most Admired Companies

100 Best Companies to Work For

101 Dumbest Moments in Business

Global 500

Top Companies for Leaders

100 Fastest-Growing Companies

BusinessWeek (www.businessweek.com)

World's Most Innovative Companies

BusinessWeek 50

Top MBA Programs

Customer Service Champs

IndustryWeek (www.industryweek.com)

IndustryWeek 1000

IndustryWeek U.S. 500

50 Best Manufacturing Companies

IndustryWeek Best Plants

Customer Satisfaction Indexes

American Customer Satisfaction Index—
University of Michigan Business School

Customer Satisfaction Measurement
Association

Exhibit 18-7: Popular Industry and Company Rankings (cont.)

Forbes (www.forbes.com)

Forbes 500

200 Best Small Companies

400 Best Big Companies

Largest Private Companies

World's 2,000 Largest Companies

Global High Performers

Types of Control

- **Feed forward control** - control that takes place before a work activity is done.
- **Concurrent control** - control that takes place while a work activity is in progress.

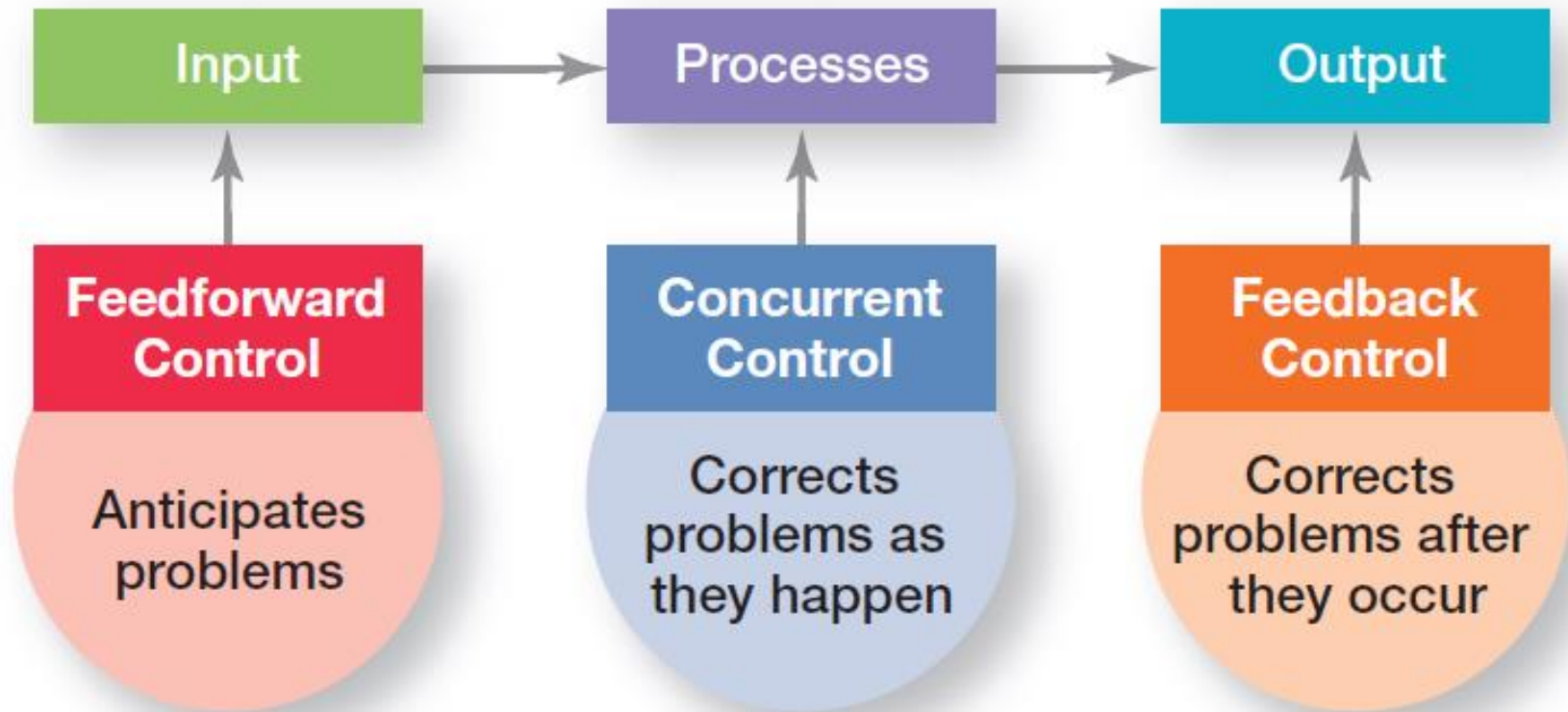


Types of Control (cont.)

- **Management by walking around** - a term used to describe when a manager is out in the work area interacting directly with employees.
- **Feedback control** - control that takes place after a work activity is done.



Exhibit 18-8: Types of Control



Financial Controls

- Traditional Controls
 - Ratio analysis
 - Liquidity
 - Leverage
 - Activity
 - Profitability
 - Budget Analysis
 - Quantitative standards
 - Deviations

Exhibit 18-9: Popular Financial Ratios

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	$\frac{\text{Current assets less inventories}}{\text{Current liabilities}}$	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 meet its interest expenses

Exhibit 18-9: Popular Financial Ratios (cont.)

Objective	Ratio	Calculation	Meaning
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

What is the Balanced Scorecard?

- **Balanced scorecard** - a performance measurement tool that examines more than just the financial perspective.
 - Measures a company's performance in four areas:
 - Financial
 - Customer
 - Internal processes
 - People/innovation/growth assets

Information Controls

- **Management information system (MIS)** - a system used to provide management with needed information on a regular basis.
 - **Data** - an unorganized collection of raw, unanalyzed facts (e.g., an unsorted list of customer names).
 - **Information** - data that has been analyzed and organized such that it has value and relevance to managers.

Benchmarking of Best Practices

- **Benchmarking** - the search for the best practices among competitors or non-competitors that lead to their superior performance.
- **Benchmark** - the standard of excellence to measure and compare against.

Exhibit 18-10: Suggestions for Internal Benchmarking

1. *Connect best practices to strategies and goals.* The organization's strategies and goals should dictate what types of best practices might be most valuable to others in the organization.
2. *Identify best practices throughout the organization.* Organizations 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 organization's culture.
4. *Communicate best practices throughout the organization.* Once best practices have been identified, that information needs to be shared with others in the organization.
5. *Create a best practices knowledge-sharing system.* There needs to be a formal mechanism for organizational members to continue sharing their ideas and best practices.
6. *Nurture best practices on an ongoing basis.* Create an organizational culture that reinforces a "we can learn from everyone" attitude and emphasizes sharing information.

Workplace Concerns

- **Employee theft** - any unauthorized taking of company property by employees for their personal use.

Exhibit 18-11: Controlling Employee Theft

Feedforward	Concurrent	Feedback
Careful prehiring screening.	Treat employees with respect and dignity.	Make sure employees know when theft or fraud has occurred—not naming names but letting people know this is not acceptable.
Establish specific policies defining theft and fraud and discipline procedures.	Openly communicate the costs of stealing.	Use the services of professional investigators.
Involve employees in writing policies.	Let employees know on a regular basis about their successes in preventing theft and fraud.	Redesign control measures.

Exhibit 18-11: Controlling Employee Theft (cont.)

Feedforward	Concurrent	Feedback
Educate and train employees about the policies.	Use video surveillance equipment if conditions warrant.	Evaluate your organization's culture and the relationships of managers and employees.
Have a professional review of your internal security controls.	Install "lock-out" options on computers, telephones, and e-mail. Use corporate hotlines for reporting incidences. Set a good example.	

Exhibit 18-12: Controlling Workplace Violence

Feedforward	Concurrent	Feedback
MBWA (managing by walking around) to identify potential problems; observe how employees treat and interact with each other.	Ensure management commitment to functional, not dysfunctional, work environments.	Communicate openly about incidences and what's being done.
Provide employee assistance programs (EAPs) to help employees with behavioral problems.	Allow employees or work groups to "grieve" during periods of major organizational change.	Investigate incidences and take appropriate action.
Enforce organizational policy that any workplace rage, aggression, or violence will not be tolerated.	Be a good role model in how you treat others.	Review company policies and change, if necessary.

Exhibit 18-12: Controlling Workplace Violence (cont.)


Feedforward	Concurrent	Feedback
Use careful prehiring screening.	Use corporate hotlines or some other mechanism for reporting and investigating incidences.	
Never ignore threats.	Use quick and decisive intervention.	
Train employees about how to avoid danger if situation arises.	Get expert professional assistance if violence erupts.	
Clearly communicate policies to employees.	Provide necessary equipment or procedures for dealing with violent situations (cell phones, alarm system, code names or phrases, and so forth).	

Customer Interactions

- **Service profit chain** - the service sequence from employees to customers to profit.
- **Corporate governance** - the system used to govern a corporation so that the interests of corporate owners are protected.

Terms to Know

- controlling
- market control
- bureaucratic control
- control process
- range of variation
- immediate corrective action
- basic corrective action
- performance
- organizational performance
- productivity
- organizational effectiveness
- feed forward control
- concurrent control
- management by walking around
- feedback control
- economic value added (EVA)
- market value added (MVA)



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