MF3122 Principles of Management

LECTURE 9

CONTROLLING

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LEARNING OUTCOMES

On successful completion of this lesson, the learner will be able to:

LO1: Define and identify the concept of Organizational Control.

LO2: Describe the nature and the need of controlling.

LO3: Examine various controlling models and approaches.

LO4: Explain the concept of TQM and analyze different TQM techniques.

LO5: Summarize and assess different aspects of controlling

THE MEANING OF CONTROL

- **Organizational control** refers to the systematic process of regulating organizational activities to make them consistent with the expectations established in plans, targets, and standards of performance.

- organizations often have trouble ensuring that managers, employees, and partners stay aligned with the behaviors needed to support goals and meet expectations.

- The essence of control is action which adjusts operations to predetermined standards, and its basis is information in the hands of managers.

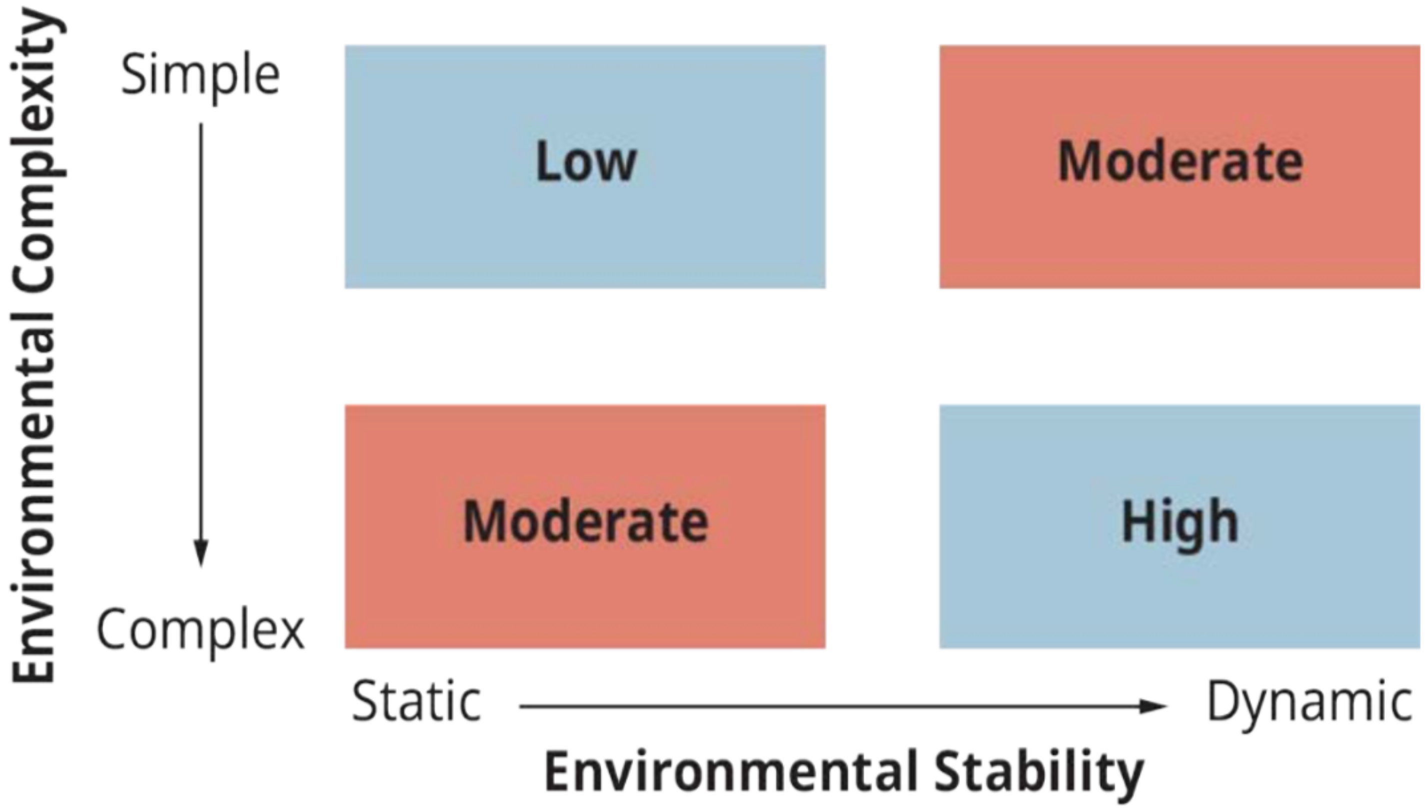
CONTROLING & CONTROL PROCESS

The process of monitoring and evaluating the behavior of organizational **members** and the effectiveness of **organization itself** and taking corrective actions if needed to maintain or improve organizational effectiveness.

- A managerial activity.
- Controlling activity involves watch, evaluate, and when needed, suggest corrective action.
- Controlling is a complex activity that is performed at many organizational levels.
  - ✓ **Upper-level managers:** overall strategic plans.
  - ✓ **Middle-level managers:** divisional and departmental plans
  - ✓ **Lower-level managers:** groups and individual employees

THE NEED FOR CONTROL

Although there is a continual and universal need for control in organizations, the importance, amount, and type of control vary across organizational situations



THE NEED OF INFORMATION

- An organization requires information for controlling effectively,
  - ✓ Performance standards
  - ✓ Actual performance
  - ✓ Actions taken to correct any deviations from the standards.
- Managers decide which <u>standards,</u> <u>measurements</u>, and <u>metrics</u> are needed to monitor and control the organization effectively, and they set up <u>systems for obtaining that information</u>.

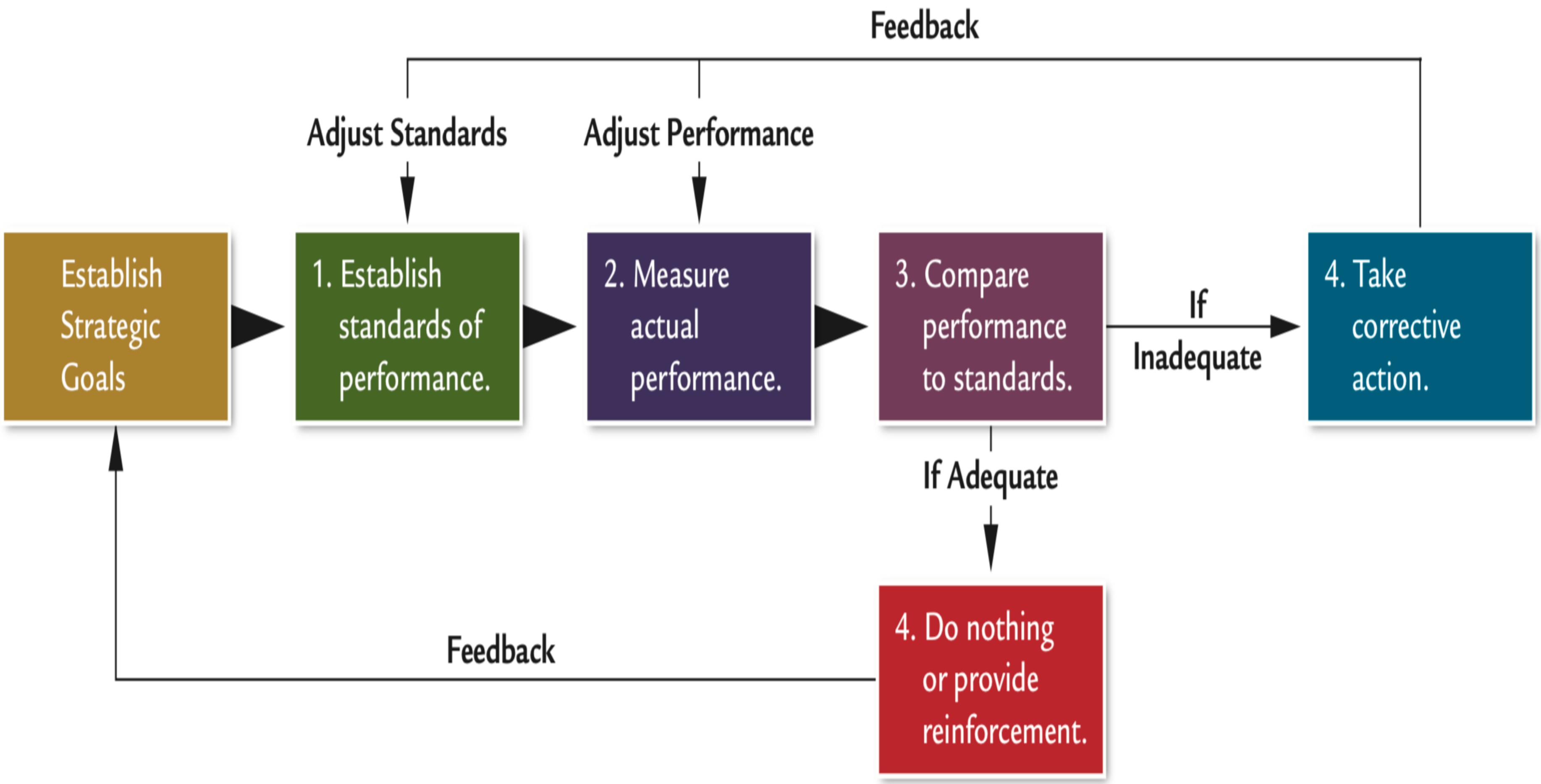
FEEDBACK CONTROL MODEL

- **The feedback control model involves using feedback to determine <u>whether performance meets established standards</u>.**

- Well-designed control systems include **<u>four key steps</u>**:

  - ✓ Establish standards
  - ✓ Measure performance
  - ✓ Compare performance to standards
  - ✓ Make corrections as necessary.

FEEDBACK CONTROL MODEL



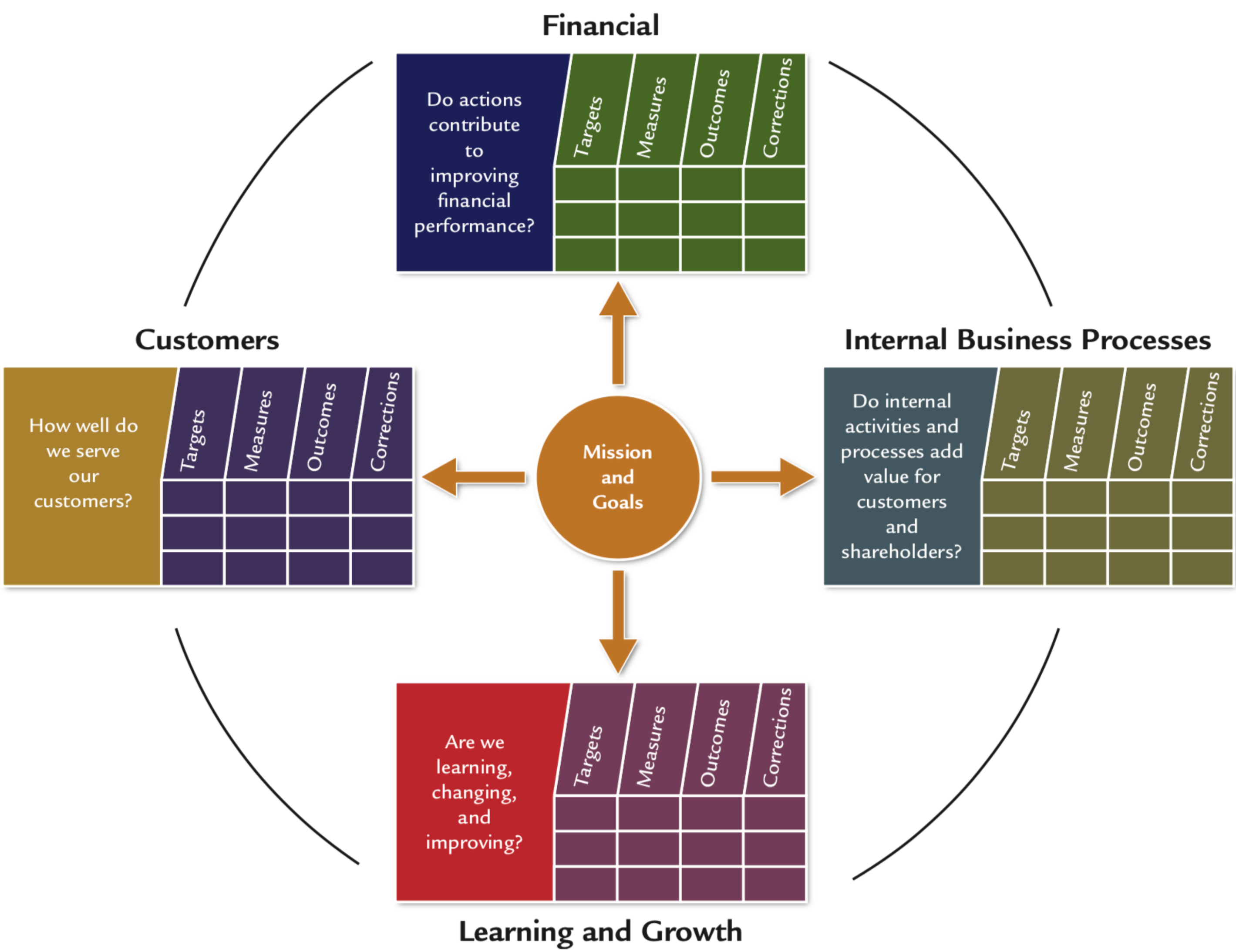
THE BALANCED SCORECARD

- A **balanced scorecard** is a comprehensive management control system that balances traditional financial measures with measures of customer service, internal business processes, and the organization's capacity for learning and growth.

- A balanced scorecard contains four major perspectives:
  - ✓ Financial performance
  - ✓ Customer service
  - ✓ Internal business processes
  - ✓ Organization's capacity for learning and growth

- Within these four areas, managers identify **key performance metrics** that the organization will track.

THE BALANCED SCORECARD



KEY PERFORMANCE METRICS

- **Financial performance**
  - Net income
  - Return on investment.
- **Customer service**
  - How customers view the organization?
  - Customer retention?
  - Customer satisfaction rates?

Customers' testimonials
Customer surveys.

- **Internal business processes**
  - Production and operating statistics
- **Organization's capacity for learning and growth**
  - How well resources and human capital are being managed for the company's future?

Employee retention rate
Introduction of new products.

THE CHANGING PHILOSOPHY OF CONTROL

- Managers' approach to control is changing in many of today's organizations.

- <u>With the shift to employee participation and empowerment</u>, many companies are adopting:

  - ✓ **A *decentralized control process* rather than a *hierarchical* control process.**

HIERARCHICAL Vs DECENTRALIZED APPROACHES

- **Hierarchical Control** involves monitoring and influencing employee behavior through extensive use of rules, policies, **hierarchy of authority**, written documentation, reward systems, and other formal mechanisms.

- **Decentralized Control** relies on cultural values, traditions, shared beliefs, and trust to foster compliance with organizational goals. Managers operate on the assumption that **employees are trustworthy and willing to perform effectively without extensive rules and close supervision.**

HIERARCHICAL Vs DECENTRALIZED APPROACHES

	Hierarchical Control	Decentralized Control
Basic assumptions	• People are incapable of self-discipline and cannot be trusted. They need to be monitored and controlled closely.	• People work best when they are fully committed to the organization.
Actions	• Uses detailed rules and procedures; formal control systems.	• Features limited use of rules; relies on values, group and self-control, selection, and socialization.
	• Uses top-down authority, formal hierarchy, position power, and quality control inspectors.	• Relies on flexible authority, flat structure, and expert power; everyone monitors quality.
	• Relies on task-related job descriptions.	• Relies on results-based job descriptions; emphasizes goals to be achieved.
	• Emphasizes extrinsic rewards (pay, benefits, status).	• Emphasizes extrinsic and intrinsic rewards (meaningful work, opportunities for growth).
	• Features a rigid organizational culture; distrust of cultural norms as a means of control.	• Features an adaptive culture; culture recognized as a means for uniting individual, team, and organizational goals for overall control.
Consequences	• Employees follow instructions and do *just* what they are told.	• Employees take initiative and seek responsibility.
	• Employees feel a sense of indifference toward work.	• Employees are actively engaged and committed to their work.
	• Employee absenteeism and turnover is high.	• Employee turnover is low.

THE DILEMMA OF ALGORITHMIC CONTROL

- **Algorithmic control** is the use of software algorithms to set targets, measure performance, provide feedback, and decide rewards for employees.

- These systems meet a need in organizations where employees <u>work remotely</u> or out of the view of management, including "gig worker" platforms such as Uber, UPS.

TOTAL QUALITY MANAGEMENT

- **TQM** is a popular approach based on a decentralized control philosophy.

- **TQM** is an organization-wide effort to infuse quality into every activity in a company through continuous improvement.

- Managing quality is a concern for every organization, and failure to ensure quality can have devastating effects.

TQM TECHNIQUES

- The implementation of TQM involves the use of many techniques:

  - ✓ Quality circles
  - ✓ Benchmarking
  - ✓ Six Sigma principles
  - ✓ Quality partnering
  - ✓ Continuous improvement

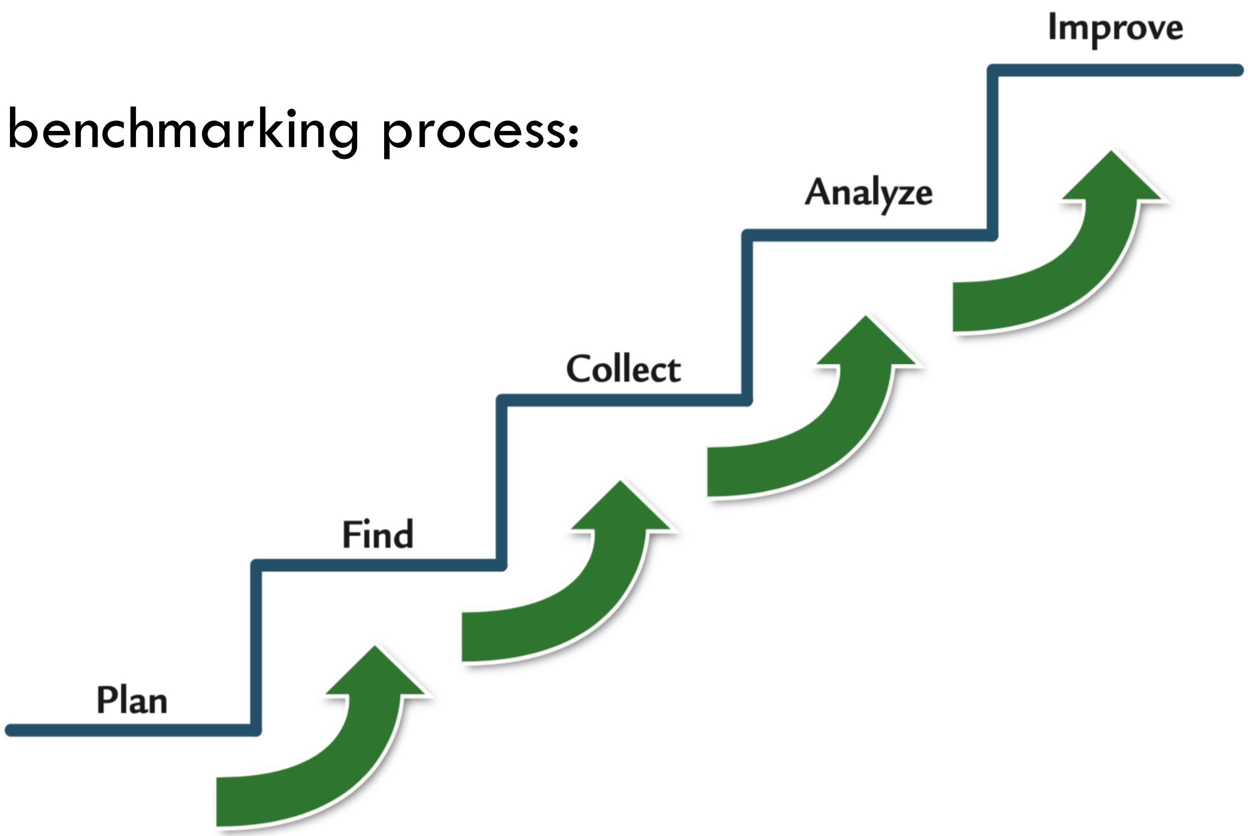
QUALITY CIRCLES

- A quality circle is a group of 6 to 12 volunteer employees who meet regularly to discuss and solve problems affecting the quality of their work.
- The members of the quality circle meet, identify problems, and try to find solutions.
- Circle members are free to collect data and perform surveys.
- Many companies train people in team building, problem solving, and statistical quality control.

BENCHMARKING

- **Benchmarking** is "the continuous process of measuring products, services, and practices against the toughest competitors or those companies recognized as industry leaders to identify areas for improvement".

- A five-step benchmarking process:



THE FIVE STEPS OF BENCHMARKING

- **STEP 1:** identifying the objectives of the study and the characteristics of a product or service that significantly influence customer satisfaction.
- **STEP 2:** identifying the source of the information to be collected.
- **STEP 3:** collect data.
- **STEP 4:** analyzing the benchmarking data that have been collected and recommending areas of improvement.
- **STEP 5:** implementing recommendations and then monitoring them through continuous benchmarking.

SIX SIGMA

- Six Sigma is a quality control approach that emphasizes a relentless pursuit of higher quality and lower costs.

- Six Sigma is based on a five-step methodology referred to as *DMAIC*:
  - ✓ Define
  - ✓ Measure
  - ✓ Analyze
  - ✓ Improve
  - ✓ Control

SIX SIGMA - DMAIC

- **Define:** a process to focus on and define the problem it wishes to solve.
- **Measure:** the initial performance of the process, creating a benchmark, and pinpoints a list of inputs that may be hindering performance.
- **Analyze:** the process by isolating each input, or potential reason for any failures, and testing it as the possible root of the problem.
- **Improve:** implement changes that will improve system performance.
- **Control:** add controls to the process to ensure it does not regress and become ineffective once again.

LEAN SIX SIGMA

- A team-focused managerial approach that seeks to improve performance by eliminating waste and defects while boosting the standardization of work.

- It combines Six Sigma methods and tools and the lean manufacturing philosophy, striving to reduce the waste of physical resources, time, effort, and talent while assuring quality in production and organizational processes.

LEAN	SIX SIGMA	LEAN SIX SIGMA
Reduce waste by streamlining the process.	*Reduce defects by effectively solving problems.*	*LEAN accelerates SIX SIGMA: Solving problems and improving processes is faster and more efficient.*

QUALITY PARTNERING

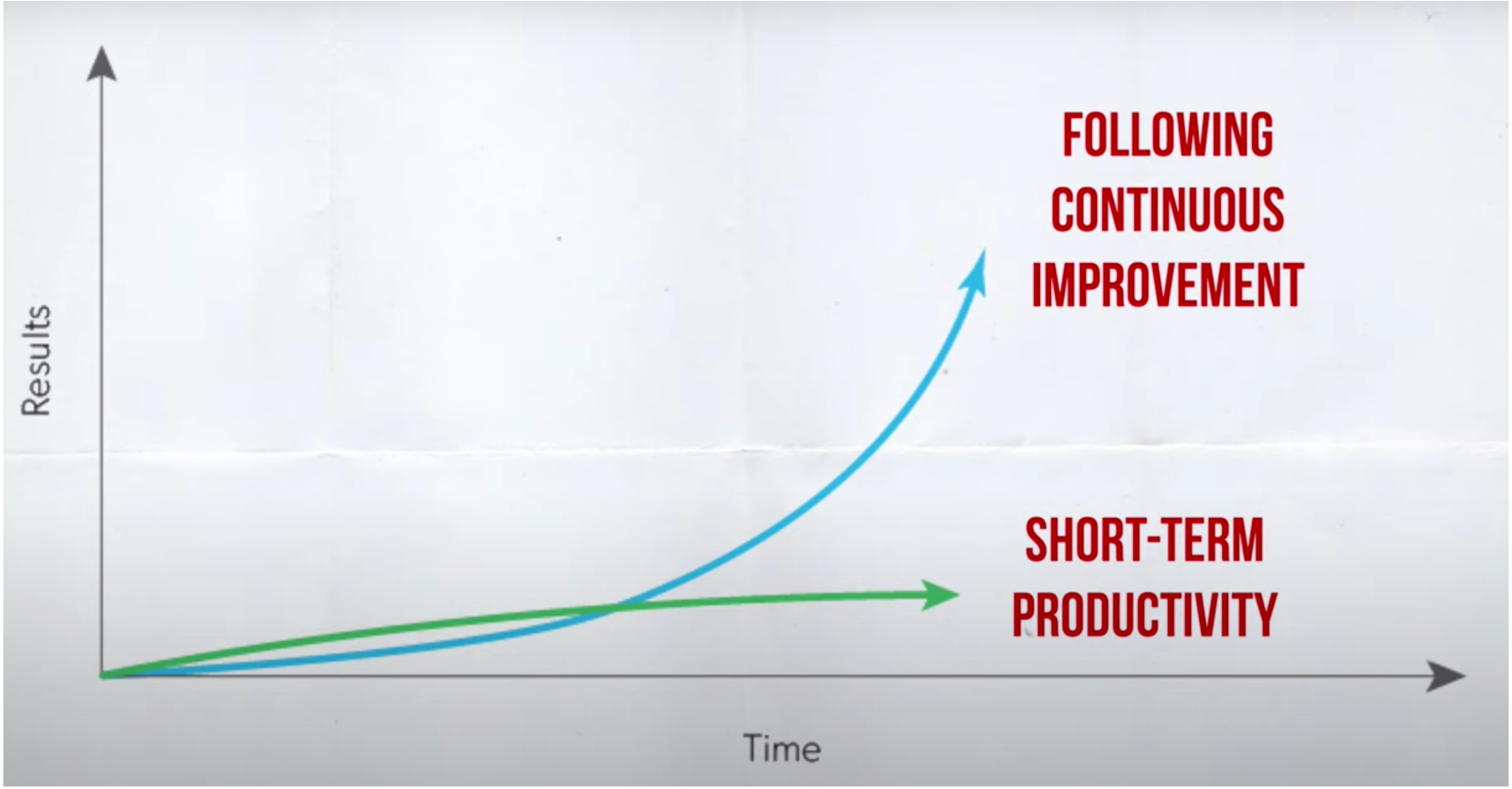
- A new approach called quality partnering involves <u>assigning dedicated personnel within a particular functional area</u> of the business.
- In this approach, the quality control personnel work alongside others within a functional area to identify opportunities for quality improvements throughout the work process.
- This integrated, partnering approach to quality makes it possible to <u>detect and address defects early in the product life cycle,</u> when they can be <u>corrected most easily, and at the lowest cost.</u>

CONTINUOUS IMPROVEMENT

- **Kaizen**, a Japanese concept, is the implementation of a large number of small, incremental improvements in all areas of the organization on an ongoing basis.

- The concept of kaizen proposes that there is no perfect end and that employees should strive to evolve, innovate, and improve constantly.

THE KAIZEN CONCEPT



TQM SUCCESS FACTORS

Positive Factors	Negative Factors
• Tasks make great skill demands on employees.	• Management expectations are unrealistically high.
• TQM serves to enrich jobs and motivate employees.	• Middle managers are dissatisfied about loss of authority.
• Problem-solving skills are improved for all employees.	• Workers are dissatisfied with other aspects of organizational life.
• Participation and teamwork are used to tackle significant problems.	• Union leaders are left out of quality control discussions.
• Continuous improvement is a way of life.	• Managers wait for big, dramatic innovations.

BUDGETARY CONTROL

- One of the most commonly used methods of managerial control.

- It is the process of setting targets for an organization's expenditures, monitoring results and comparing them to the budget, and making changes as needed.

- As a control device, budgets are reports that list planned and actual expenditures for **cash, assets, raw materials, salaries, and other resources.**

TYPES OF BUDGETS

- Expense budget
- Revenue budget
- Cash budget
- Capital budget
- Zero-based budgeting (ZBB)
- Top-down budgeting
- Bottom-up budgeting

FINANCIAL CONTROL

- In every organization, managers need to watch how well the organization is performing financially by watching the numbers.

- Not only do the numbers tell whether the organization is on sound financial footing,

- But they also can be useful indicators of other kinds of performance problems.

FINANCIAL STATEMENTS

- **Income statements**

The income statement summarizes the firm’s financial performance for a given time interval.

- **Balance sheet**

The balance sheet shows the firm’s financial position with respect to assets and liabilities at a specific point in time.

COMMON FINANCIAL RATIOS

Liquidity Ratios	
Current ratio	Current assets/Current liabilities
Quick ratio	Cash + Accounts receivable/Current liabilities
Activity Ratios	
Inventory turnover	Total sales/Average inventory
Conversion ratio	Purchase orders/Customer inquiries
Profitability Ratios	
Profit margin on sales	Net income/Sales
Gross margin	Gross income/Sales
Return on assets (ROA)	Net income/Total assets
Leverage Ratios	
Debt ratio	Total debt/Total assets

SUMMARY

- What is organizational control?
- The need for control across organizational situations.
- Information requirement for controlling
- Feedback control model
- Balance scorecard system
- Hierarchical Vs Decentralized control approaches
- Algorithmic control
- TQM & TQM techniques
- Budgetary control & types of budgets
- Financial control
- Financial statements & financial ratios

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Q&A