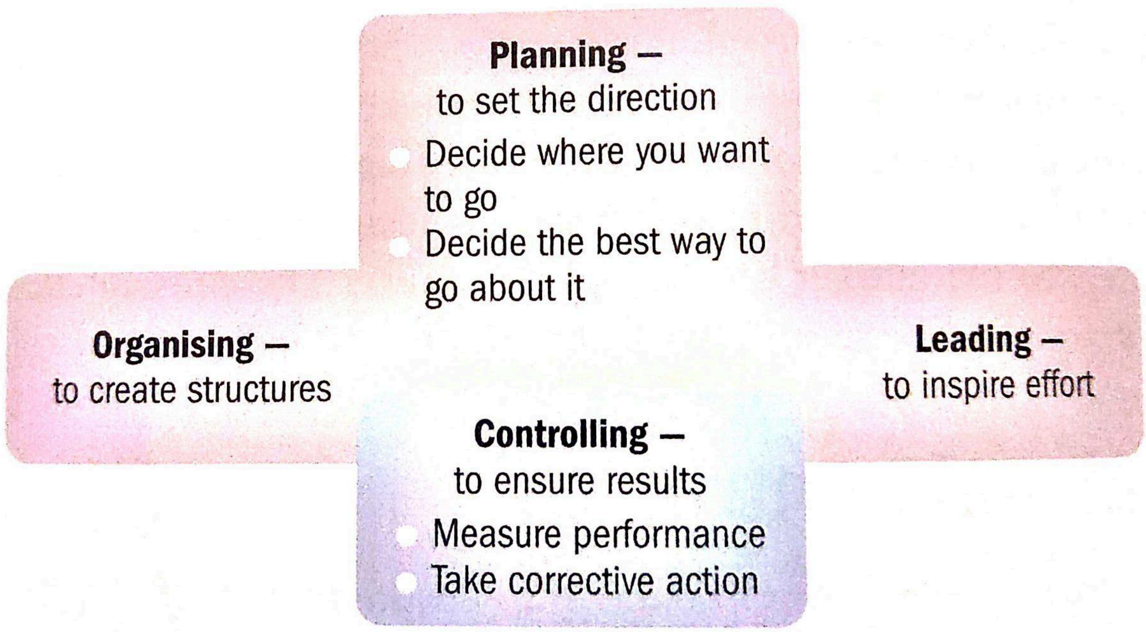
Lecture: Controlling



I. Introduction

What Does Control Mean in an Organizational Context?

- **Definition of Controlling:**
  - Controlling refers to the process of monitoring, evaluating, and adjusting organizational activities to ensure they align with established goals and standards.
  - It involves measuring performance, comparing it to predetermined standards, and taking corrective actions when necessary.

A. Types of Controls

1. **Financial Controls:**
   - **Examples**: Budgets, cost analysis, financial ratios.
   - **Explanation**: Managers use financial controls to manage costs, allocate resources, and ensure financial stability.

Manager's notepad 11.2

Popular financial ratios with preferred directions ↑ or ↓

Liquidity ratios:

- [↑] Current ratio = Current assets/Current liabilities
- [↑] Acid test = (Current assets − Inventory)/Current liabilities

Leverage ratios:

- [↓] Debt ratio = Total debts/Total assets
- [↑] Times interest earned = Profit before interest and tax/Total interest

Asset management ratios:

- [↑] Inventory turnover = Sales/Average inventory
- [↑] Total asset turnover = Sales/Total assets

Profitability ratios:

- [↑] Net margin = Profit after tax/Sales
- [↑] Return on investment (ROI) = Profit after tax/Total assets.

2. **Quality Controls:**
   - **Examples**: Inspections, quality assurance programs, Six Sigma.
   - **Explanation**: Quality controls focus on maintaining product or service quality to meet customer expectations.
3. **Administrative Controls:**
   - **Examples**: Workflow processes, policies, procedures.
   - **Explanation**: Administrative controls guide organizational behavior and ensure consistency in operations.

B. Organizational Control Process

1. **Establishing Standards:**
   - **Example**: Setting production targets, quality benchmarks, or financial goals.
   - **Explanation**: Standards serve as reference points for evaluating performance.
2. **Measuring Performance:**
   - **Example**: Tracking sales revenue, defect rates, or employee productivity.
   - **Explanation**: Regular measurement helps assess actual performance against standards.
3. **Comparing Performance Against Standards:**
   - **Example**: Comparing actual sales to the sales target.
   - **Explanation**: Deviations indicate areas needing attention.
4. **Taking Corrective Action:**
   - **Example**: Adjusting production processes, revising budgets, or retraining employees.

- **Explanation**: Corrective actions address performance gaps and improve outcomes.

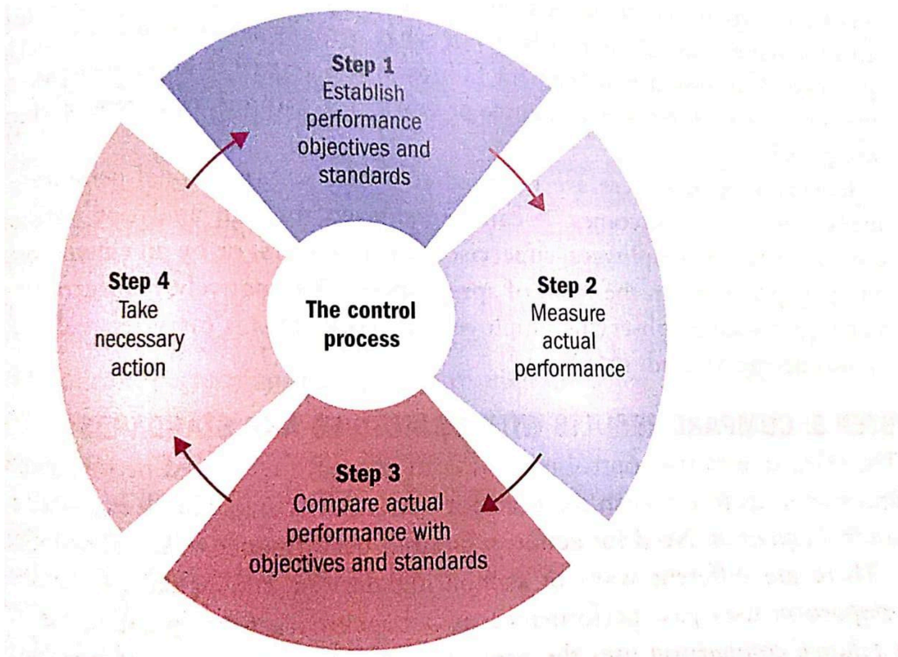


FIGURE 11.2 Four steps in management control

C. Control Strengths in Cultures

1. **Hierarchical Culture:**
   - **Example**: Traditional organizations with clear top-down control.
   - **Explanation**: Hierarchical cultures emphasize authority, rules, and centralized decision-making.
2. **Participative Culture:**
   - **Example**: Organizations that encourage employee involvement.
   - **Explanation**: Participative cultures empower employees, fostering innovation and adaptability.

some real-life scenarios related to controlling within organizations:

1. **Effective Controlling Leading to Organizational Success:**
   - **Scenario:** A manufacturing company implements strict quality control measures for its production line. Regular inspections are conducted at each stage of production to ensure that products meet high standards.
   - **Result:** The company experiences reduced defects, improved customer satisfaction, and increased market share due to the consistent quality of its products. Effective controlling contributes to its success.
2. **Lack of Control Causing Problems:**

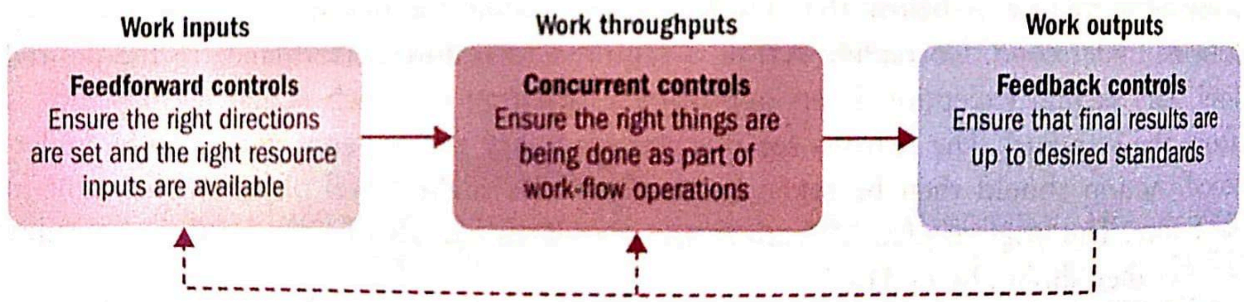
- **Scenario:** A retail chain fails to monitor its inventory levels adequately. As a result, some stores consistently run out of popular products, while others have excess stock that becomes obsolete.
- **Result:** Customers become frustrated when they can't find what they need, leading to lost sales and a negative reputation. Lack of inventory control affects profitability and customer loyalty.

3. **Financial Control in a Startup:**
   - **Scenario:** A tech startup sets ambitious growth targets but lacks proper financial controls. They overspend on marketing campaigns without tracking return on investment (ROI).
   - **Result:** Despite initial success, the lack of financial control leads to cash flow problems. The startup struggles to sustain operations and faces the risk of failure.
4. **Project Management Control:**
   - **Scenario:** A construction company is working on a large infrastructure project. The project manager fails to monitor progress effectively, leading to delays and cost overruns.
   - **Result:** The project misses deadlines, incurs additional expenses, and damages the company's reputation. Proper project management control could have prevented these issues.
5. **Employee Performance Control:**
   - **Scenario:** A call center lacks performance metrics for its agents. There's no regular feedback or coaching.
   - **Result:** Agents underperform, leading to dissatisfied customers and high turnover rates. Implementing performance control systems and providing feedback would improve overall efficiency.
6. **Supply Chain Control in a Retailer:**
   - **Scenario:** A retail chain relies on multiple suppliers for its products. However, they don't monitor supplier performance or have backup plans.
   - **Result:** When a key supplier faces disruptions (e.g., natural disasters), the retailer struggles to maintain inventory. Effective supply chain control would have diversified suppliers and minimized risks.

II. Broad Types of Controls Utilized by Managers

Types of controls

There are three major types of managerial controls — feedforward, concurrent and feedback controls, as shown in figure 11.3.[5] Each is relevant to a different phase of the organisation's input–throughput–output cycle of activities. Each offers significant opportunities for actions to be taken that advance organisational productivity and high performance. And, importantly, each offers the opportunity for performance-oriented organisational and personal learning through systematic assessment of actions and results.



1. **Feedforward Controls:**
   - Implemented before a work activity begins.
   - Ensure that directions are clear and that the right resources are available.
   - Example: Ensuring proper training before starting a new project.
2. **Concurrent Controls:**
   - Monitor ongoing operations during the work process.
   - Allow corrective action to be taken while the work is being done.
   - Example: Regular quality checks during manufacturing.
3. **Feedback Controls:**
   - Take place after an action is completed.
   - Focus on end results.
   - Answer the question: "Now that we are finished, how well did we do?"
   - **Example: Analyzing customer feedback after launching a new product.**
4. **External Control:**
   - Achieved through persuasion, supervision, and formal administrative systems.
   - **Example**: Managers overseeing employee performance.
5. **Internal Control:**
   - Self-control exercised by individuals.
   - Employees take personal responsibility for their work.

- **Example**: Self-monitoring of tasks and adherence to company policies.

III. Control Systems Used in Organizations

1. **Remuneration and Benefits System:**
    - Attracts and retains a high-quality workforce.
    - Properly structured compensation packages motivate employees.
2. **Discipline System:**
    - Handled in a fair and systematic way.
    - Ensures compliance with organizational rules and policies.
3. **Financial Information Analysis and Ratios:**
    - Stress dealing with liquidity, assets, profitability, and other financial aspects.
    - Helps in decision-making and performance evaluation.
4. **Operations Management Techniques:**
    - Focus on efficiency, quality, purchasing, inventory, and cost processes.
    - Examples: Job design, project planning, Gantt charts, CPM/PERT.
5. **Management by Objectives (MBO):**
    - Supervisors and subordinates jointly set performance objectives.
    - Regular reviews of performance results.

Real-Life Scenario 1: Effective Controlling Leading to Organizational Success

Company X, a manufacturing firm, implemented a comprehensive quality control system as part of their Six Sigma initiative. Through regular monitoring of production processes, data analysis, and corrective actions, they were able to significantly reduce defects in their products. This resulted in higher customer satisfaction, increased repeat business, and reduced warranty claims. By maintaining strict control over their manufacturing processes, Company X not only improved product quality but also gained a competitive edge in the market.

Real-Life Scenario 2: Lack of Control Causing Problems

Company Y, a retail chain, experienced a lack of control over inventory management in several of its stores. Due to inadequate monitoring and oversight, stock levels were not accurately tracked, leading to frequent stockouts of popular items and excess inventory of slow-moving products. As a result, Company Y faced lost sales opportunities, increased carrying costs, and decreased profitability. Without proper control mechanisms in place, the organization struggled to optimize its inventory levels and meet customer demand effectively.

Experiences and Observations:

In my role as a quality control manager at a manufacturing plant, I have observed firsthand the importance of effective controlling in ensuring organizational success. By implementing stringent quality control measures, such as regular inspections, process audits, and employee training programs, we were able to identify and rectify issues before they impacted product quality. This proactive approach not only improved customer satisfaction but also enhanced our reputation as a reliable supplier in the industry.

Conversely, I have also seen the consequences of inadequate control within organizations. In a previous role at a logistics company, I witnessed how a lack of control over shipment tracking and delivery schedules led to numerous customer complaints and service disruptions. Without proper monitoring and coordination, shipments often arrived late or were misplaced, resulting in dissatisfied customers and damaged relationships. This highlighted the critical need for robust control mechanisms to ensure smooth operations and customer satisfaction.