Chapter 11: Foundations of Control

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## Control

**Control** is the process of monitoring activities to ensure they are being accomplished according to the plan and correcting any deviations from the plan. Managers must ensure that the activities are leaning towards the organisational goals.

### Measures of Organisational Performance

The end result of an activity is measured by its **performance**. The accumulated end result of all the organization’s work activities is called the **organisational performance**. To actually figure out whether the activities have deviated from the plan, managers need to compare the performance of the activities against a set of **performance standards**.

There are several types of commonly used organizational performance measures:

* **Organisational Productivity** – Productivity is the overall output of goods or services produced divided by the inputs needed to generate that output. Output is measured by the sales revenue (selling price x number sold) and input is measured by the cost of acquiring and transforming resources into the output.
* **Organisational Effectiveness** – Effectiveness is a measure of how appropriate organisational goals are and how well the organisation is achieving those goals.
* **Industry and Company Rankings** – There are a variety of rankings available which list industries and companies based on specific performance measures, such as assets, after-tax profits, answers from managers on surveys, employee opinion surveys, percentage sales growth, etc.

### Importance of Control

Planning, efficient organisational structures and motivated employees still do not guarantee that activities are going according to plan and goals are being attained. Control is the only way to know if goals are being attained and if not, then why. Control allows managers to **follow up** on what others are supposed to do and ensure it is being done.

Another major impact of proper control is **employee empowerment**. Many managers fear that the mistakes of employees will cause repercussions for them, so they are tempted to do things themselves. An effective control system is likely to reduce this reluctance.

Finally, control allows managers to **protect** the organisation and physical workplace. Managers must have plans in place to protect employees, data and the infrastructure.

## The Control Process

The **control process** has three parts: measuring performance, comparing against a standard and taking managerial actions.

### Measuring Performance

To **measure performance**, managers frequently use four sources of information: personal observations, statistical reports, oral reports and written reports. **Personal observations** involves actually walking around and seeing what is going on, which is time consuming and distracting. **Reports** provide more complete data, but may be subjective. A combination of both increases the chances of the information being reliable.

The actual **criteria** being measured is far more important than the source, since the wrong performance measure criteria can have disastrous consequences. For example, if we judge employees based on the most expensive item they manage to sell, they will ignore the majority of the customers who are likely looking for cheaper items. Some criteria are fairly **common** regardless of the organization, such as employee satisfaction, turnover rate, absenteeism rate and keeping costs within budget. Other criteria are more **specific** to what the organisation does. A paper tablet company could measure the number of paper tablets produced, scrap rate, percentage of rejects, etc., while a customer service centre could measure the number of client requests processed, or time required to process paperwork. In the rate case where a tangible and measurable metric cannot be found, subjective measures should be used, despite its limitations.

### Comparing Performance Against Standard

Real life performance will always vary somewhat form the standard, so it is important to determine the **range of variation**. If the variation goes outside this range is unacceptable.

The standard against which performance is being compared is usually determined via **benchmarking**, i.e., searching for best practices among competitors and non-competitors that lead to superior performance. Additionally, **internal benchmarking** should also be done so as to not overlook best-practices already being followed within the company.

### Taking Managerial Action

There are three ways in which managers can taking action: to not take any action, correct the actual performance, or revise the standard.

To **correct actual performance**, which is caused by unsatisfactory work, managers can take corrective action such as changing strategy, structure, compensation practices, training practices, redesigning jobs or firing employees. Another decision to make is whether to take immediate or basic corrective action. **Immediate corrective action** corrects problems at once to get performance back on track, such as to temporarily introduce a discounted price to increase sales. **Basic corrective action** looks at how and why performance has deviated and then proceeds to correct the source of deviation, such as to introduce promotional efforts and increase advertising so as to increase sales in the long run. It is not uncommon for managers to just take immediate corrective actions under the guise that they do not have the time to take basic corrective action, but good managers analyse the situation to determine whether basic corrective action is required take it if required.

Unrealistic standards can also cause variation, in which case the **standard must be revised**. For example, if the standard is reached without difficulty, perhaps it should be raised, because why let your employees be happy when they are clearly capable of earning you more money. Revising the standard downwards on the other hand is more difficult. Because it is more difficult, the only advise provided in the book for this situation is to assume your employees are lazy and tell them to do better. Which has literally nothing to do with actually revising the standard which is what this section was supposed to be about. Because you know, the manager can never be wrong. The lesson here is actually for the employees. If you are able to complete a task quickly and efficiently, figure out how to take as long as you can and make it look as difficult as you can. Never go out of your way to perform better than expected. Do just enough to not get fired.

## When to Introduce Control

Managers can implement control before an activity begins, during the activity or after the activity has ended.

### Feed-Forward Control

**Feed-Forward** control is the most desirable type of control since it prevents anticipated problems before they take place. For example, if we send quality control experts to ensure that the potatoes being grown on our farms are of high quality, then we will not have complaints from customers about the quality of our french-fries. However, feed-forward control requires timely and accurate information which is difficult to obtain.

### Concurrent Control

**Concurrent control** is enacted while the activity is being performed, which can correct problems before they become too costly. The best-known form of this is direct supervision, when the manager is walking around and interacting with employees. By overseeing their actions while they perform them, managers can catch mistakes and correct them. There is obviously some delay between the start of the activity and the corrective response, but this delay is minimal.

### Feedback Control

**Feedback control** takes place after the activity is complete, such as the manager taking corrective measures when a report arrives about declining sales. Although this is least effective since the damage is already done, it is the most popular form of control. It is also frequently the only form that is viable.

Feedback provides two benefits. Firstly, it tells the manager how close the standard and actual performance were, giving them an insight into how successful their planning was. Secondly, it can enhance employee motivation, giving that both positive and negative feedback is given in an effective manner.

## Methods of Control

There are generally three approaches to designing control systems: market, bureaucratic and clan controls. Most organisations do not rely on just one of the methods. Rather, they use either bureaucratic or clan control and add some market control measures.

### Market Control

Under **market control**, standards are determined based on external market mechanisms, such as price competition and relative market share. Organisations that use market control see their divisions as profit centres and evaluate them based on their contribution to the total corporate profits.

### Bureaucratic Control

**Bureaucratic control** emphasises organisational authority and relies on administrative rules, regulations, procedures and policies.

### Clan Control

Under **clan control**, employee behaviour is regulated based on the organisation’s culture. Being guided by a strong set of organisational values and norms can empower employees to take decisions that benefit the organisation in the long run.

## Financial and Information Controls

One of the primary purposes of a business is to make a profit. To achieve this goal, managers need financial controls and accurate information.

### Traditional Financial Control Measures

**Traditional financial control measures** include ratio analysis and budget analysis.

There are four categories of **ratio analysis**:

* Liquidity ratios measure the organisation’s ability to meet its current debt obligations.
* Leverage ratios examine the organisation’s use of debt to finance its assets and whether it is able to meet the interest payments of the debt
* Activity ratios assess how efficiently the firm is using its assets
* Profitability ratios measure how efficiently and effectively the firm is using its assets to generate profits

These ratios are calculated using information from the organisation’s two primary financial statements: the balance sheet and the income statement.

**Budget** analysis can reveal information about actual consumption of resources compared to the standard. For example, a particular month could have higher than expected miscellaneous expenses, at which point measures need to be taken to determine what caused this and how to fix it.

### Other Financial Control Measures

* **Economic Value Added** (EVA) – How much economic value is being created by what the organisation is doing with its assets, less any capital investments made in its assets. This metric can motivate employees to use less capital (reduce costs) or invest in high-return projects (projects that bring in more money with fewer expenses).
* **Market Value Added** (MVA) – The market’s estimate of the value of a firm’s past and expected capital investment projects. If the company’s market value (value of all outstanding stock plus debt) is greater than all the capital invested in it, the managers are creating wealth. Otherwise, they are destroying it

## Current Issues in Control

### Workplace Concerns

There are two major workplace concerns we will be look at: workplace privacy and employee theft.

Employers frequently read your emails, tap your phone, monitor your work computer, store and review computer files and monitor you in the employee washroom or dressing room (!!!). Basically, managers feel the need to control every minute of the working day of their employees to make sure they are never relaxing because them not working means significant cost to the business (but of course that brand new luxurious sofa they just had custom made for their office isn’t costing the business any money at all). There are legitimate reasons for some of these measures, such as monitoring and keeping backup copies of emails to make sure employee behaviour in the workplace environment is appropriate or company secrets are not being leaked. Providing detailed information about what is and is not monitored and what sort of use of company provided resources is acceptable can help prevent employees from feeling demeaned.

**Employee theft** is the unauthorized use of company property by employees for their personal use. This can be as serious as embezzlement and fraudulent filing of expenses and also as trivial as taking some office supplies home. This is a huge problem because [absolutely no organisation is doing the exact same thing to their employees](https://en.wikipedia.org/wiki/Wage_theft).