

Introduction to Controlling



Learning Outcomes

What Is Control and Why Is It Important?

- Define controlling.
- Discuss the reasons why control is important.
- Explain the planning-controlling link.

The Control Process

- Describe the three steps in the control process.
- Explain why what is measured is more critical than how it's measured.
- Explain the three courses of action managers can take in controlling.

Learning Outcomes

Controlling Organizational Performance

- Define organizational performance.
- Describe three most frequently used measures of organizational performance.

Tools for Measuring Organizational Performance

- Contrast feedforward, concurrent, and feedback controls.
- Explain the types of financial and information controls managers can use.
- Describe how balanced scorecards and benchmarking are used in controlling.

Learning Outcomes

Contemporary Issues in Control

- Describe how managers may have to adjust controls for cross-cultural differences.
- Discuss the types of workplace concerns managers face and how they can address those concerns.
- Explain why control is important to customer interactions.
- Define corporate governance.

What Is Control?

- Controlling
 - The process of monitoring activities to ensure that they are being accomplished as planned and of correcting any significant deviations.
- The Purpose of Control
 - To ensure that activities are completed in ways that lead to 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.

The Planning–Controlling Link



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.



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

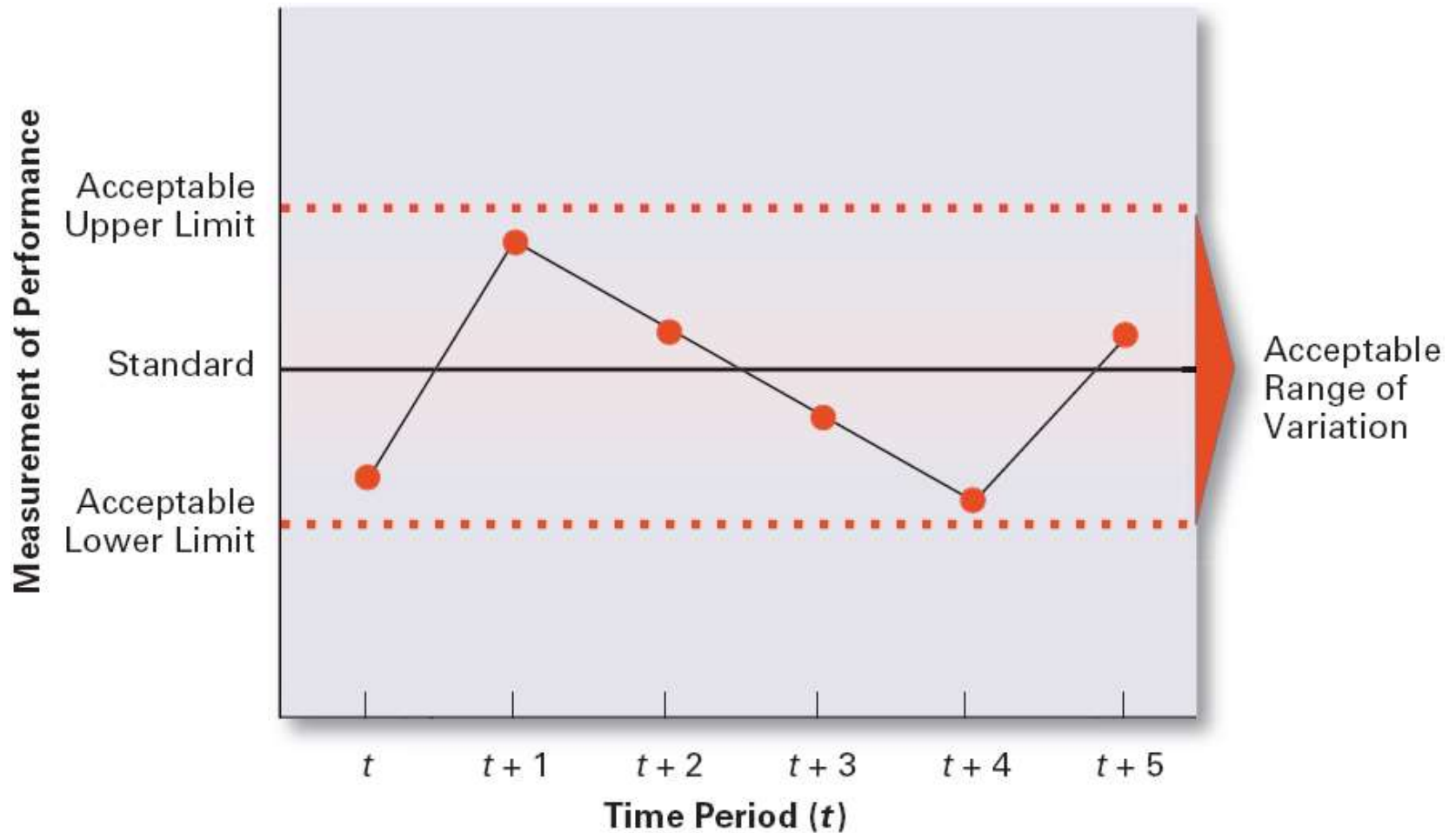
Common Sources of Information for Measuring Performance

	Advantages	Drawbacks
Personal Observation	<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

- Determining the degree of variation between actual performance and the standard.
 - Significance of variation is determined by:
 - The acceptable range of variation from the standard (forecast or budget).
 - The size (large or small) and direction (over or under) of the variation from the standard (forecast or budget).

Defining the Acceptable Range of Variation



Example of Determining Significant Variation

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

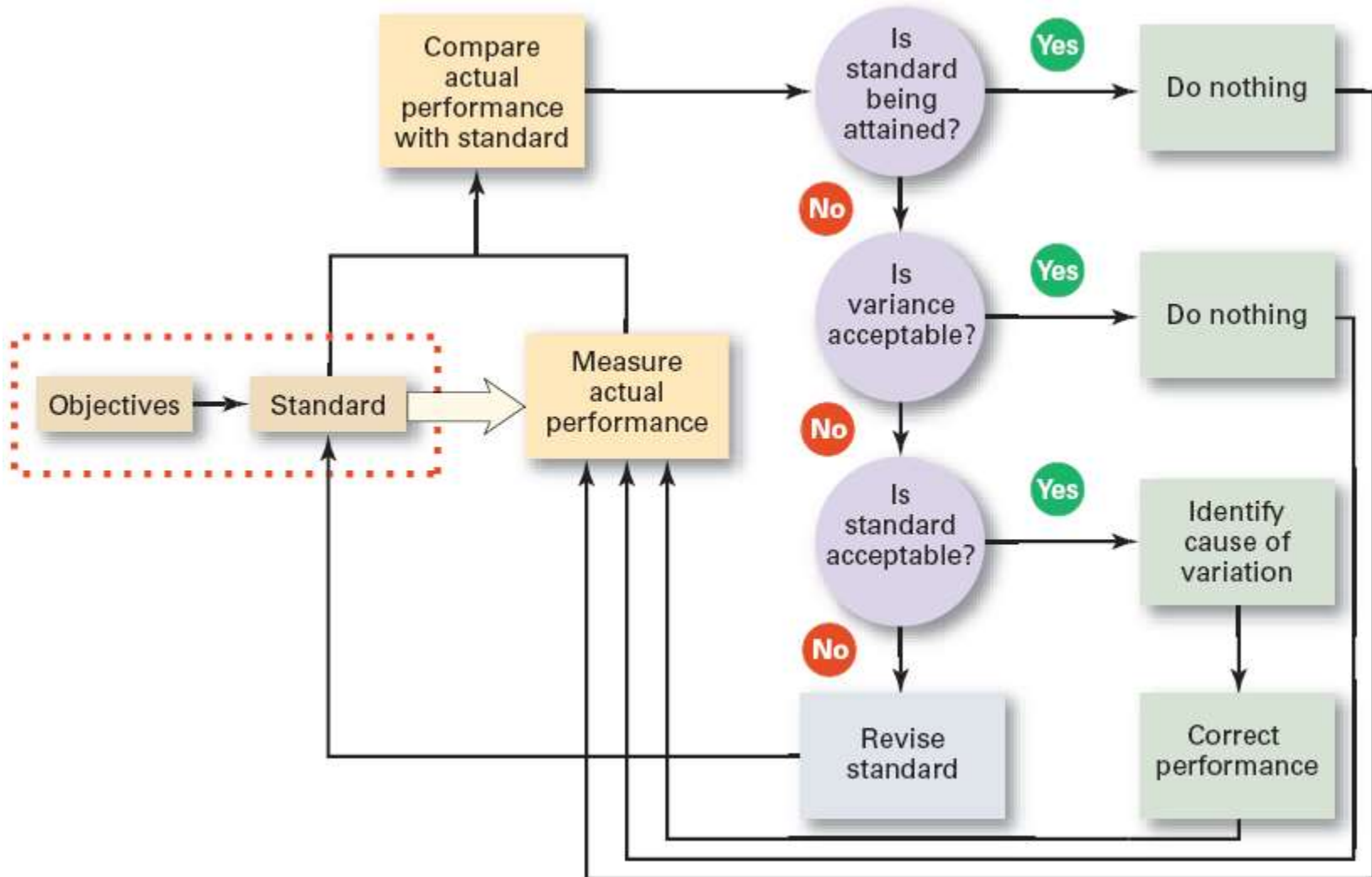
Taking Managerial Action

- Courses of Action
 - “Doing nothing”
 - Only if deviation is judged to be insignificant.
 - Correcting actual (current) performance
 - Immediate corrective action to correct the problem at once.
 - Basic corrective action to locate and to correct the source of the deviation.
 - **Corrective Actions**
 - Change strategy, structure, compensation scheme, or training programs; redesign jobs; or fire employees

Taking Managerial Action

- Courses of Action (cont'd)
 - Revising the standard
 - Examining the standard to ascertain whether or not the standard is realistic, fair, and achievable.
 - Upholding the validity of the standard.
 - Resetting goals that were initially set too low or too high.

Managerial Decisions in the Control Process



Controlling for Organizational Performance

- What Is Performance?
 - The end result of an activity
- What Is Organizational Performance?
 - The accumulated end results of all of the organization's work processes and activities
 - Designing strategies, work processes, and work activities.
 - Coordinating the work of employees.



Organizational Performance Measures

- Organizational Productivity
 - **Productivity:** the overall output of goods and/or services divided by the inputs needed to generate that output.
 - Output: sales revenues
 - Inputs: costs of resources (materials, labor expense, and facilities)
 - Ultimately, productivity is a measure of how efficiently employees do their work.

Organizational Performance Measures (cont'd)

- Organizational Effectiveness
 - Measuring how appropriate organizational goals are and how well the organization is achieving its goals.
 - **Systems resource model**
 - The ability of the organization to exploit its environment in acquiring scarce and valued resources.
 - **The process model**
 - The efficiency of an organization's transformation process in converting inputs to outputs.
 - **The multiple constituencies model**
 - The effectiveness of the organization in meeting each constituencies' needs.

Industry and Company Rankings

- Industry rankings on:
 - Profits
 - Return on revenue
 - Return on shareholders' equity
 - Growth in profits
 - Revenues per employee
 - Revenues per dollar of assets
 - Revenues per dollar of equity
- Corporate Culture Audits
- Compensation and benefits surveys
- Customer satisfaction surveys

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

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

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

Tools for Measuring Organizational Performance

- Feedforward Control
 - A control that prevents anticipated problems *before* actual occurrences of the problem.
 - Building in quality through design.
 - Requiring suppliers conform to ISO 9002.
- Concurrent Control
 - A control that takes place while the monitored activity is in progress.
 - **Direct supervision:** management by walking around.

Tools for Measuring Organizational Performance

- Feedback Control

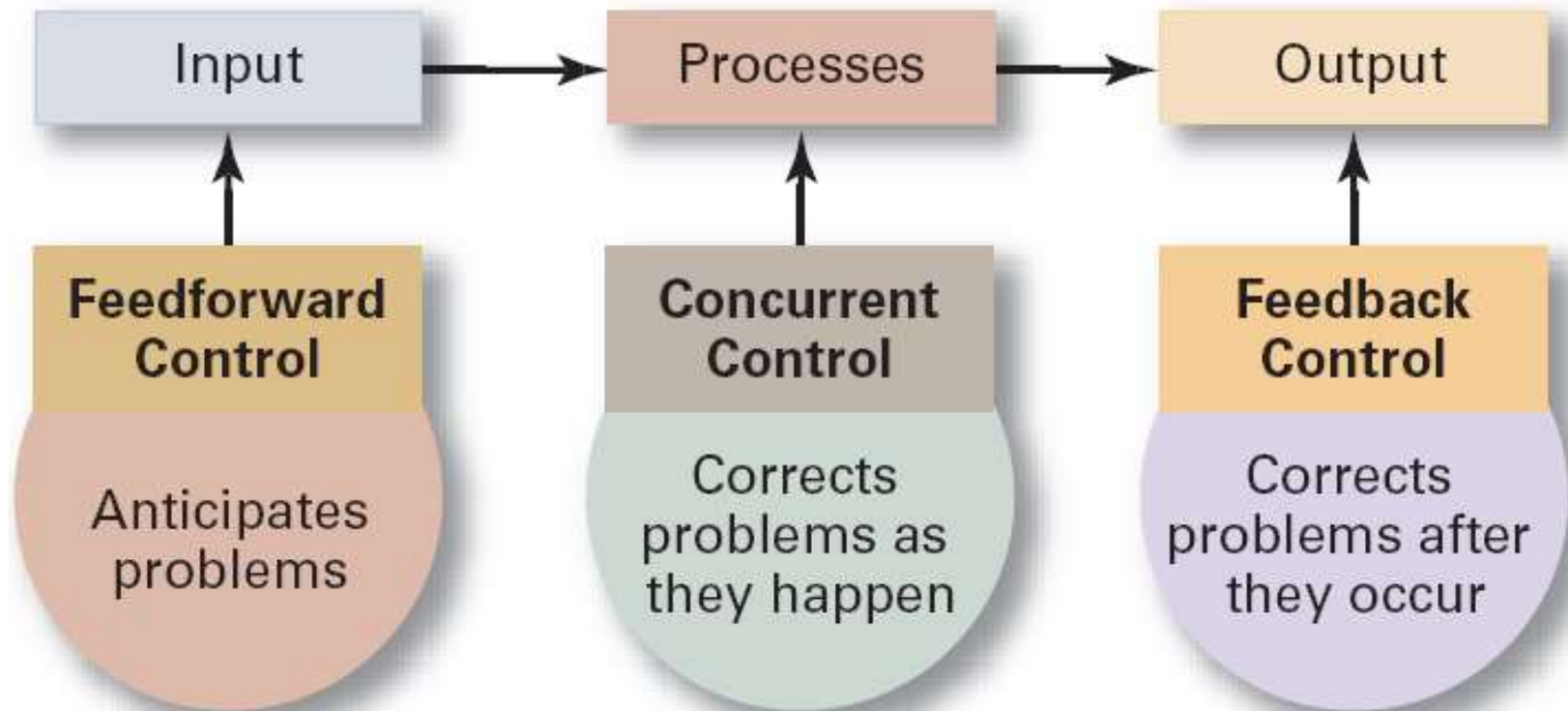
- A control that takes place after an activity is done.

- Corrective action is after-the-fact, when the problem has already occurred.

- Advantages of feedback controls:

- Provide managers with information on the effectiveness of their planning efforts.
 - Enhance employee motivation by providing them with information on how well they are doing.

Types of Control



Financial Controls

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

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

Popular Financial Ratios

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

Financial Controls

- Managing Earnings
 - “Timing” income and expenses to enhance current financial results, which gives an unrealistic picture of the organization’s financial performance.
 - New laws and regulations require companies to clarify their financial information.

Tools for Measuring Organizational Performance

- Balanced Scorecard
 - Is a measurement tool that uses goals set by managers in four areas to measure a company's performance:
 - Financial
 - Customer
 - Internal processes
 - People/innovation/growth assets
 - Is intended to emphasize that all of these areas are important to an organization's success and that there should be a balance among them.

Information Controls

- Purposes of Information Controls
 - As a tool to help managers control other organizational activities.
 - Managers need the right information at the right time and in the right amount.
 - As an organizational area that managers need to control.
 - Managers must have comprehensive and secure controls in place to protect the organization's important information.

Information Controls

- Management Information Systems (MIS)
 - A system used to provide management with needed information on a regular basis.
 - **Data:** an unorganized collection of raw, unanalyzed facts (e.g., 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

- Benchmark
 - The standard of excellence against which to measure and compare.
- Benchmarking
 - Is the search for the best practices among competitors or noncompetitors that lead to their superior performance.
 - Is a control tool for identifying and measuring specific performance gaps and areas for improvement.

Contemporary Issues in Control

- Cross-Cultural Issues
 - The use of technology to increase direct corporate control of local operations
 - Legal constraints on corrective actions in foreign countries
 - Difficulty with the comparability of data collected from operations in different countries

Contemporary Issues in Control

- Workplace Concerns
 - Workplace privacy versus workplace monitoring:
 - E-mail, telephone, computer, and Internet usage
 - Productivity, harassment, security, confidentiality, intellectual property protection
 - Employee theft
 - The unauthorized taking of company property by employees for their personal use.
 - Workplace violence
 - Anger, rage, and violence in the workplace is affecting employee productivity.

Top Internet Video Sites Viewed at Work

Top 10 Internet video brands viewed in the U.S. while
at work for January 2008, in millions of streams

YouTube	674.2
Yahoo	156.5
Fox Interactive Media	92.8
MSN/Windows Live	74.2
ESPN	68.3
CNN Digital	41.6
Turner Entertainment	41.4
NBC Universal	30.5
Disney Online	27.2
Nickelodeon	23.5

Source: Bobby White, "The New
Workplace Rules: No Video
Watching," Wall Street Journal,
March 4, 2008, p. B3.

Controlling Employee Theft

Feedforward	Concurrent	Feedback
Careful pre hiring 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.
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 professionals review your internal security controls.	Install "lock-out" options on computers, telephones; and e-mail. Use corporate hot lines for reporting incidences. Set a good example.	

Sources: Based on A.H. Bell and D.M. Smith. "Protecting the Company Against Theft and Fraud," *Workforce Online* (www.workforce.com) December 3, 2000; J.D. Hansen. "To Catch a Thief," *Journal of Accountancy*, March 2000, pp. 43–46; and J. Greenberg, "The Cognitive Geometry of Employee Theft," in *Dysfunctional Behavior in Organizations: Nonviolent and Deviant Behavior*, eds. S.B. Bacharach, A. O'Leary-Kelly, J.M. Collins, and R.W. Griffin (Stamford, CT: JAI Press, 1998), pp. 147–93.

Workplace Violence

Witnessed yelling or other verbal abuse	42%
Yelled at co-workers themselves	29%
Cried over work-related issues	23%
Seen someone purposely damage machines or furniture	14%
Seen physical violence in the workplace	10%
Struck a co-worker	2%

Source: Integra Realty Resources, October-November Survey of Adults 18 and Over, in "Desk Rage." *BusinessWeek*, November 20, 2000, p. 12.

Controlling Workplace Violence

Feedforward	Concurrent	Feedback
Management commitment to functional not dysfunctional, work environments.	MBWA (managing by walking around) to identify potential problems; observe how employees treat and interact with each other.	Communicate openly about incidences and what's being done.
Employee assistance programs (EAP) to help employees with serious behavioral problems.	Allow employees or work groups to "grieve" during periods of major organizational change.	Investigate incidences and take appropriate action.
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.
Careful prehiring screening.	Use corporate hot lines or some mechanism for reporting and investigating incidences.	
Never ignore threats. Train employees about how to avoid danger if situation arises.	Use quick and decisive intervention. 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 systems, code names or phrases, and so forth).	

Sources: Based on M. Gorkin, "Five Strategies and Structures for Reducing Workplace Violence," *Workforce Online* (www.workforce.com), December 3, 2000; "Investigating Workplace Violence: Where Do You Start?" *Workforce Online* (www.forceforce.com), December 3, 2000; "Ten Tips on Recognizing and Minimizing Violence," *Workforce Online* (www.workforce.com), December 3, 2000; and "Points to Cover in a Workplace Violence Policy," *Workforce Online* (www.workforce.com), December 3, 2000.

Contemporary Issues in Control

- Customer Interactions
 - Service profit chain
 - Is the service sequence from employees to customers to profit.
 - Service capability affects service value which impacts on customer satisfaction that, in turn, leads to customer loyalty in the form of repeat business (profit).

Contemporary Issues in Control

- Corporate Governance

- The system used to govern a corporation so that the interests of the corporate owners are protected.

- Changes in the role of boards of directors

- Increased scrutiny of financial reporting (Sarbanes-Oxley Act of 2002)

- More disclosure and transparency of corporate financial information

- Certification of financial results by senior management

Terms to Know

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

Terms to Know

- management information system (MIS)
- data
- information
- balanced scorecard
- benchmarking
- employee theft
- service profit chain
- corporate governance

Test your skills

- What is controlling?
- How are planning and controlling linked?
- What are the types of controlling?
- What are the contemporary issues in controlling?