Principles of Management

Unit 5

Controlling

System and process of controlling - budgetary and non-budgetary control techniques — use of computers and IT in management control- Productivity problems and management — control and performance - direct & prevent control- reporting

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* **Controlling** — Nature & Purpose

| Q1. Define controlling. |

→ the process through which managers monitor activities to ensure that they are being accomplished as planned and correcting any significant deviations

Purpose of control - to ensure that activities are completed in ways that lead to the completion / accomplishment of organizational goals.

Nature — an ongoing process

— Control is forward, because past actions cannot be controlled

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* **Why is control important?**

| Q2. Why is control important? |

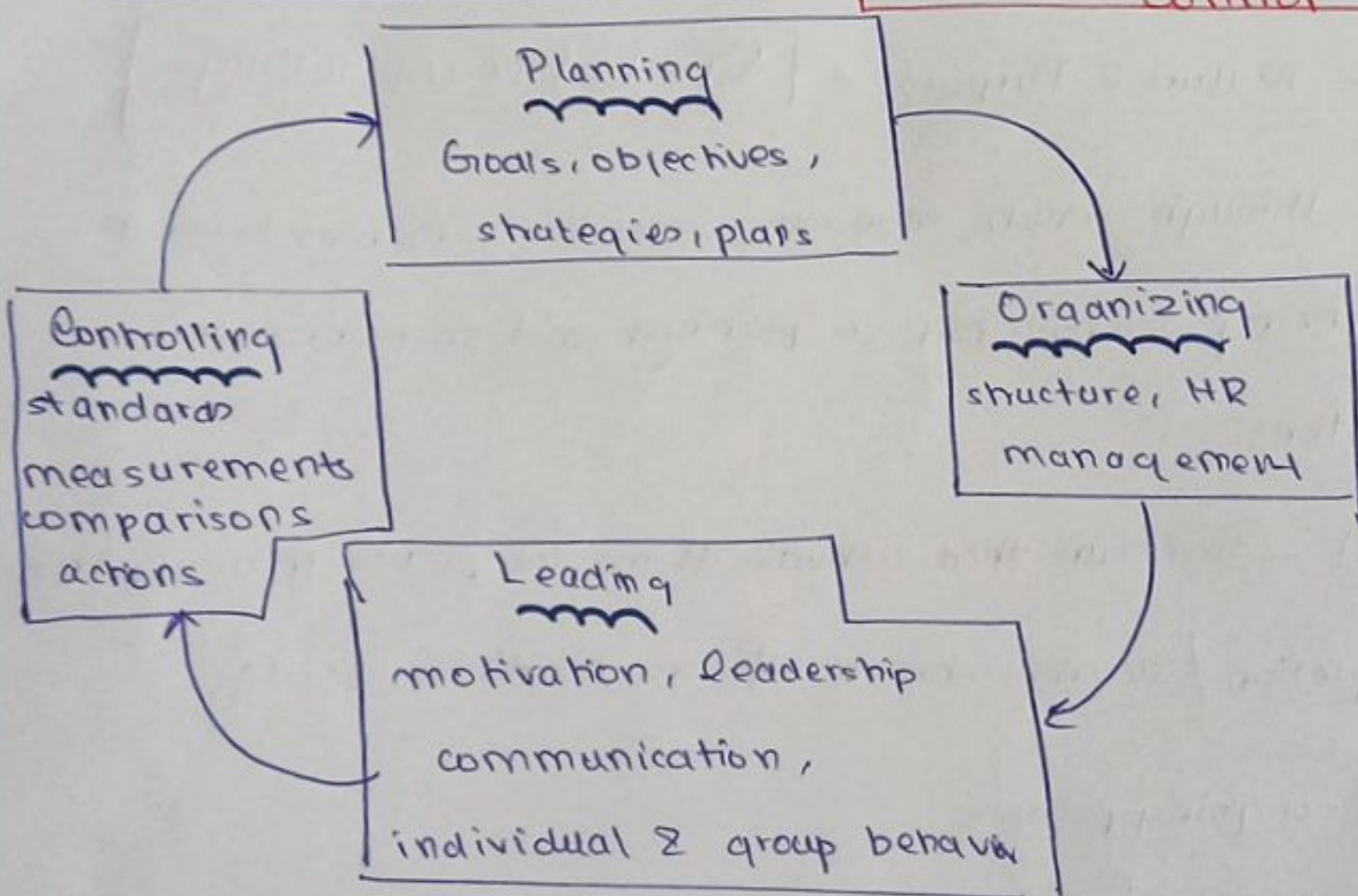→ Control serves as the final link in management functions. It has the following facets:

A. Planning - Control lets managers know whether their goals and plans are on target & what future actions to take.

B. Empowering employees - control systems provide managers with information & feedback on employee performance.

C. Protecting the workplace - control enhances physical security and help minimize workplace disruptions
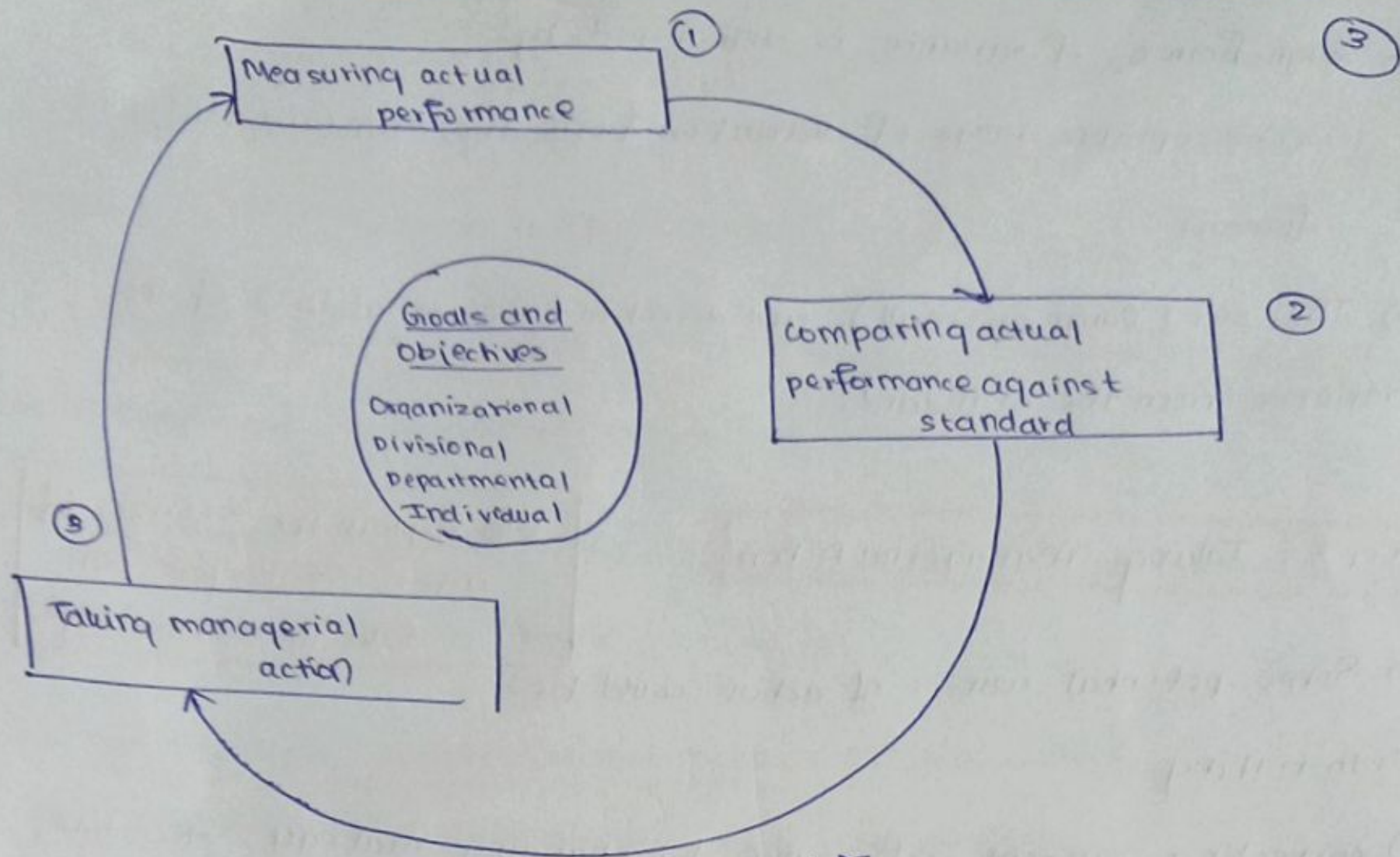
* Planning - Controlling Link

Planning
Goals, objectives, strategies, plans

Organizing
structure, HR management

Leading
motivation, leadership communication, individual & group behavior

Controlling
standards measurements comparisons actions

* The control process

The control process has the 3 following components:

1. Measuring actual performance
2. Comparing actual performance against a standard
3. Taking action to correct deviations or inadequate standards.

① **Measuring actual performance**

③

② **Comparing actual performance against standard**

Goals and Objectives
Organizational
Divisional
Departmental
Individual

⑤

Taking managerial action

Step1: Measuring Actual performance

How to measure?

ⓑ From sources of info

  — personal observation   from TB
  — statistical reports
  — oral reports
  — written reports

What to measure?

Employees ⟵ satisfaction / turnover / absenteeism

Budgets ⟵ costs / outputs / sales

Step2: Comparing

→ Determine the degree of variation between actual performance & the standard.

☆☆☆

Q5. Explain why what is measured is more critical than how it is measured.

Ans → What one measures is more critical to the control process than how it is measured, because selecting the wrong criteria can cause serious problems

→ The 'what' that is measured often determines what exactly the employees will do.

→ Significance of variance is determined by:

(i) acceptable range of variation from the standard budget or forecast

(ii) The size (large or small) and direction (over or under) of the variation from the standard.

Step3 : Taking Managerial Action

→ Some potential courses of action could be:

(i) do nothing

(ii) correcting current performance by changing strategy, structure, compensation scheme, training program

(iii) revise the standard by examining whether it is realistic or not, but at the same time ensure the validity of the standard

* Controlling for Organizational Performance

Organizational performance - The accumulated end results of all the organization's work processes and activities. It includes the designing strategies, work processes & work activities

Organizational Performance can be measured using the following

A. Organizational Productivity - the overall output of goods / services divided by the inputs needed to generate the input

→ can be sales revenues or costs of resources
→ a measure of how efficiently employees do work

B. **Organizational Effectiveness** - measure how appropriate organizational goals are and how well the organization is achieving its goals. This is done with 3 models:

(i) **Systems Resource model** - ability of the organization to exploit its environment in acquiring scarce and valued resources

(ii) **The process model** - efficiency of an organization's transformation process in converting inputs to outputs.

(iii) **The multiple constituencies model** - effectiveness of the organization in meeting each constituencies' needs

C. **Industry and Company Rankings**

→ Examining rankings is a popular way for managers to measure organizational performance.

→ Rankings are determined by specific performance measures, which are different for each list. For eg. *Fortune chooses the "Best Companies to Work For" by examining answers given by thousands of randomly selected employees.

* Tools used to measure organizational ~~controls~~ performance

A. Feed forward, concurrent, feedback controls

B. Financial and Information Controls

C. Usage of balanced scorecards and benchmarking in controlling

A. Feedforward, Concurrent & Feedback Control

(i) Feedforward Control —: a control that prevents anticipated problems before the actual occurrences of the problem

→ ensures a quality product

(ii) Concurrent Control

→ control that takes place while the monitored activity is in progress

→ could be in the form of direct supervision, where management is by walking around and evaluating / supervising employees

(iii) Feedback Control

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

→ The advantage of this is that provides managers with information on the effectiveness of their planning efforts

→ can enhance employee motivation by providing them with information on how well they are doing.

B. Financial and Information Controls

(i) Financial Controls

① Traditional financial control methods

→ involves the usage of ratio analysis & budget analysis

→ Liquidity ratios measure an organization's ability to meet its current debt obligations

→ Leverage ratios examine the organization's use of debt to finance its assets and whether the organization is able to meet the interest payments on the debt

→ Activity ratios assess how effectively of a company is using its assets

→ Profitability ratios measure how efficiently and effectively the company is using its assets to generate profits

→ Budgets can also be used for controlling because they provide managers with quantitative standards against which to measure & compare resource consumption.

② Managing Earnings

→ When organizations manage earnings, they 'time' income & expenses to enhance their current financial results, which gives an unrealistic picture of the organization's financial performance.

→ New laws and regulations now require companies to clarify their financial information, reducing the temptation to manage earnings.

(ii) Information Controls

→ Info. controls ensures that managers have the right informational the right time and in the right amount

→ Managers must have comprehensive & secure controls in place to protect the organization's important info.

→ Management Information Systems (MIS) is used to provide the management with needed info. on a regular basis

→ data vs. info
↓   → analyzed & organized
unorganized

C.   **Balanced Scorecards and Benchmarking?**

(i) Balanced Scorecards

→ a measurement tool that uses goals' set by managers in the financial, customer, internal process & innovation domains to measure a company's performance.

→ There must exist a balance between those components

(ii) Benchmarking

→ The standard of excellence against which to compare & measure

→ It is the search for best practices among competitors that lead to their superior performance.

→ A control tool meant to identify & measure specific performance gaps and areas for improvement.

*   **Contemporary Issues in Control**

These are:-   A. Cross-cultural issues
               B. Workplace concerns
               C. Customer Interactions
               D. Corporate Governance

A. **Cross - Cultural Issues**

→ Local operations may come under direct corporate control, with the usage of technology.

→ There may be legal constraints on corrective actions in foreign countries

→ There may be difficulty with the comparability of data collected from operations in different countries.

B. **Workplace Concerns**

(i) work place privacy & monitoring - monitoring of email, telephone computer and internet usage. It also includes measures to promote productivity and, prevent harassment, protect intellectual property & maintain confidentiality.

(ii) Employee Theft - the unauthorized taking of company property by employees for their personal use

(iii) Workplace violence - anger, rage & violence in the workplace may affect employee productivity.

c. **Customer Interactions**

→ must monitor if the service sequence from employees to customers is profitable

→ service capability affects service value which impacts customer

satisfaction, which in turn leads to customer loyalty in the form of repeat process

b. **Corporate Governance**

→ It is the system used to govern a corporation so that the interests of the corporate owners are protected.

→ It may cause changes in the board of directors.

→ There may be increased scrutiny of financial reporting, and might require more disclosure and transparency of corporate financial information.

→ May require the certification of financial results by senior management.

* **Budgetary Control**

→ the establishment of budgets, relating the responsibilities of executives to the requirements of a policy & the continuous comparison of actual with budgeted results.

Techniques

(i) Planning - programme budgetary systems (PPBS) — analyze the basic objectives of policies and activity of each program

→ measure the total cost & choose the best alternative.

(ii) <u>Zero-based budgeting</u> — every subsequent year's budget is made on a nil base.

→ The expected expense & expected income should be the same.

→ This process involves scheduling, prioritizing and resource allocation

(iii) <u>Variance Analysis</u> — estimated budget is compared with actual accounting figures

(iv) <u>Responsibility accounting</u> — The organization is classified as cost-center, profit center and investment center.

→ Based on this classification, an employee will be assigned with a target — and will be awarded on the basis of achievement

(v) <u>Fund Adjustment</u> — altering the fund allocation based on the requirement.

(2) # <u>Non-budgetary control techniques</u>

(i) <u>statistical data</u> — analyze many aspects of a business operation & can be used for control on the basis of historical / forecast.

(ii) <u>Break-even point analysis</u> — this chart represents the relationship of sales & expenses in such a way as to show at volume revenue exactly covers expenses

(iii) __Personal observation__: can carefully & control through personal observation

(iv) __Operational audit__ - the internal audit is a regular appraisal by a staff of internal auditors, of the accounting, financial and other operations of a business

(v) __PERT__ - The Program /Project Evaluation & Review Technique helps analyze the time limits for each project & identifying the minimum time needed

(vi) __Gantt Chart__ - a bar chart illustrating a project schedule - indicating start and stop dates.

* __Productivity__

→ The overall output of goods or services produced divided by all the inputs needed to generate that output

→ A composite of people & operations variables

* __Benefits of increased productivity__

→ economic growth and develop
→ higher wages & profits w/o inflation
→ increased competitive capability due to lower costs

*Improving Productivity   (Deming's 14 points)

1. plan for the long term feature

2. never be complacent concerning the quality of your product

3. establish statistical control over the production process

4. deal with the best & fewest number of suppliers

5. Find if problems are with specific parts or with the overall process

6. Train workers for the job you are asking them to perform

7. raise the quality of your line supervisors

8. drive out fear

9. encourage depts to work closely together

10. do not adopt strictly numerical goals

11. require workers to do quality work

12. train employees to understand statistical methods

13. train employees in new skills if needed

14. make top managers responsible for implementing these principles.