



Management
8th edition
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Foundations of Control

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What Is Control

Control

- 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.

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Designing Control Systems

Market Control

- Emphasizes the use of external market mechanisms to establish the standards used in the control system.
 - ❖ **External measures:** price competition and relative market share

Bureaucratic Control

- Emphasizes organizational authority and relies on rules, regulations, procedures, and policies.

Clan Control

- Regulates behavior by shared values, norms, traditions, rituals, and beliefs of the firm's culture.

Which control mechanism used most?

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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.

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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.

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Step one: Measuring: How and What We Measure

Sources of Information	Control Criteria
<ul style="list-style-type: none"> ➤ Personal observation ➤ Statistical reports ➤ Oral reports ➤ Written reports <p>what we measure?</p>	<ul style="list-style-type: none"> ➤ Employees <ul style="list-style-type: none"> ❖ Satisfaction ❖ Turnover ❖ Absenteeism ➤ Budgets <ul style="list-style-type: none"> ❖ Costs ❖ Output ❖ Sales <p>how we measure?</p>

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Step two: 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).

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Step three: 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

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Taking Managerial Action (cont'd)

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.



SUMMARY



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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



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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, a measure of how efficiently employees do their work.

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Organizational Performance Measures

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

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Organizational Effectiveness Measures

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

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Tools for Controlling 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.

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Tools for Controlling Organizational Performance (cont'd)

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
 - ❖ Feedback provides managers with information on the effectiveness of their planning efforts.
 - ❖ Feedback enhances employee motivation by providing them with information on how well they are doing.

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Tools for Controlling Organizational Performance: Financial Controls

Traditional Controls

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

Other Measures

- Economic Value Added (EVA)
- Market Value Added (MVA)

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Tools for Controlling Organizational Performance: Financial Controls (cont'd)

Other Measures

- Economic Value Added (EVA)
 - ❖ How much value is created by what a company does with its assets, less any capital investments in those assets: *the rate of return earned over and above the cost of capital.*
 - The choice is to use less capital or invest in high-return projects.
 - $EVA = \text{After tax operating profit} - \text{total annual COC}$

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Tools for Controlling Organizational Performance: Financial Controls (cont'd)

Other Measures (cont'd)

- Market Value Added (MVA)
 - ❖ The value that the stock market places on a firm's past and expected capital investment projects
 - ❖ If the firm's market value (its stock and debt) exceeds the value of its invest capital (its equity and retained earnings), then managers have created wealth.
 - ❖ Positive MVA = $\text{Company market value} > \text{capital invested}$

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Controlling Organizational Performance

Balanced Scorecard ■

- A measurement tool that uses goals set by managers in four areas to measure a company's performance:
 - ❖ Financial, customer, internal processes, and people/innovation/growth assets

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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

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Benchmarking of Best Practices

Benchmarking

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

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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

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Contemporary Issues in Control (cont'd)

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.

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Contemporary Issues in Control (cont'd)

Customer Interactions

- Service profit chain
 - ❖ 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).

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

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