

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

- Personal observation
- > Statistical reports
- Oral reports
- > Written reports

what we measure?

Control Criteria

- Employees
 - Satisfaction
 - ♦ Turnover
 - Absenteeism
- > Budgets
 - CostsOutput
 - ⋄ Sales

how we measure?

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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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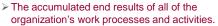
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Controlling for Organizational Performance

What Is Performance?

The end result of an activity

What Is Organizational Performance?



- 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

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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=After tax operating profit 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= Company market value>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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