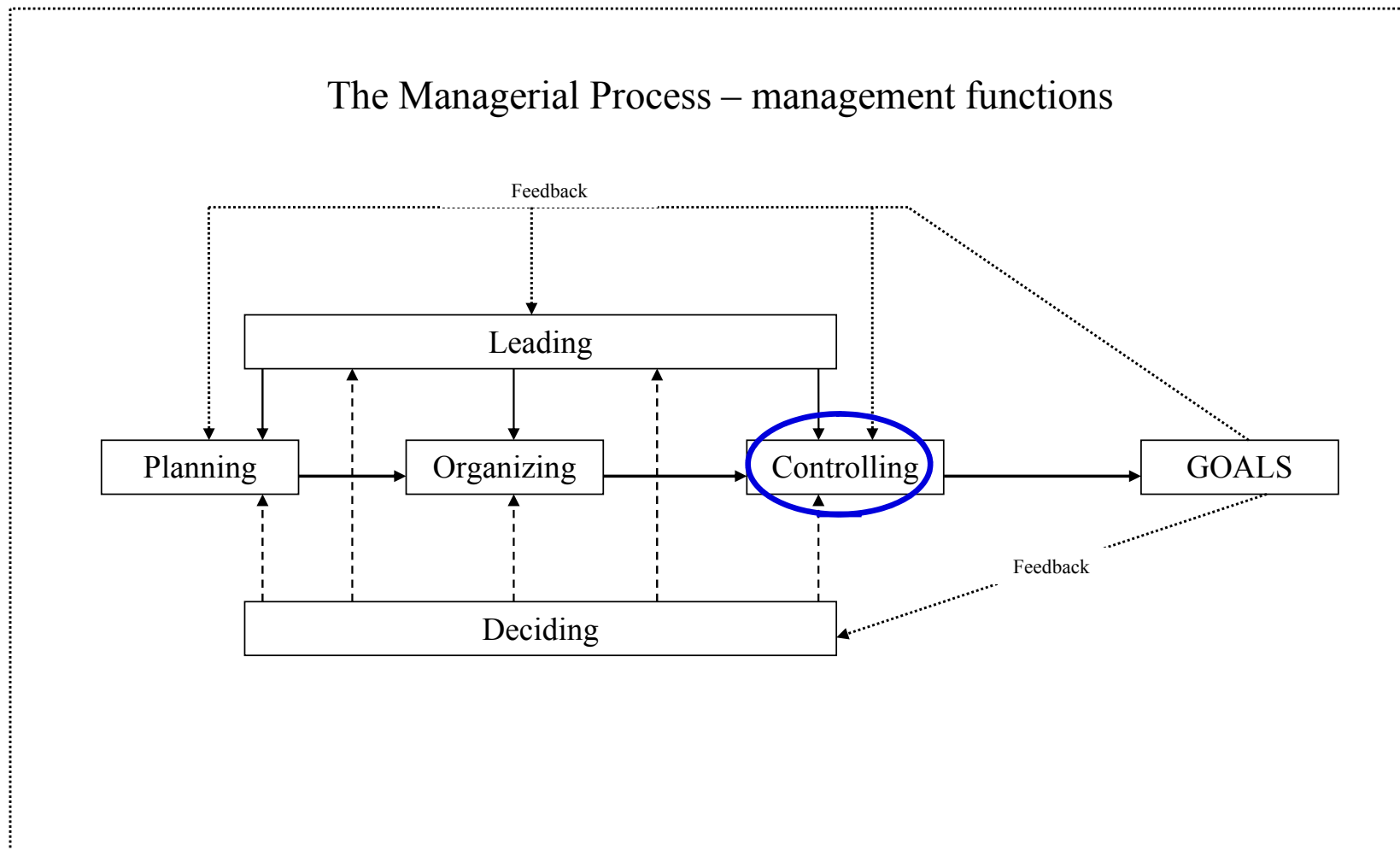# MUNI
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Controlling

Lecture 10

Agenda for today

- What Is Control and Why Is It Important?

- The Control Process

- Controlling Organizational Performance

- Controlling Tools and Techniques

- Selected Contemporary Issues of Control

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Where are we?

The Managerial Process – management functions

Feedback

Leading

Planning		Organizing		Controlling		GOALS

Feedback

Deciding

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What Is Control?

The Purpose of Control

To ensure that activities are completed in ways that lead to accomplishment of organizational goals.

Controlling

The process of monitoring activities to ensure that they are being accomplished as planned and of correcting any significant deviations.

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.

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Characteristics of Three Approaches to Control Systems

Type of Control	Characteristics
Market	Uses external market mechanisms, such as price competition and relative market share, to establish standards used in system. Typically used by organizations whose products or services are clearly specified and distinct and that face considerable marketplace competition.
Bureaucratic	Emphasizes organizational authority. Relies on administrative and hierarchical mechanisms, such as rules, regulations, procedures, policies, standardization of activities, well-defined job descriptions, and budgets to ensure that employees exhibit appropriate behaviors and meet performance standards.
Clan	Regulates employee behavior by the shared values, norms, traditions, rituals, beliefs, and other aspects of the organization's culture. Often used by organizations in which teams are common and technology is changing rapidly.

Why Is Control Important?

The Planning–Controlling Link

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.
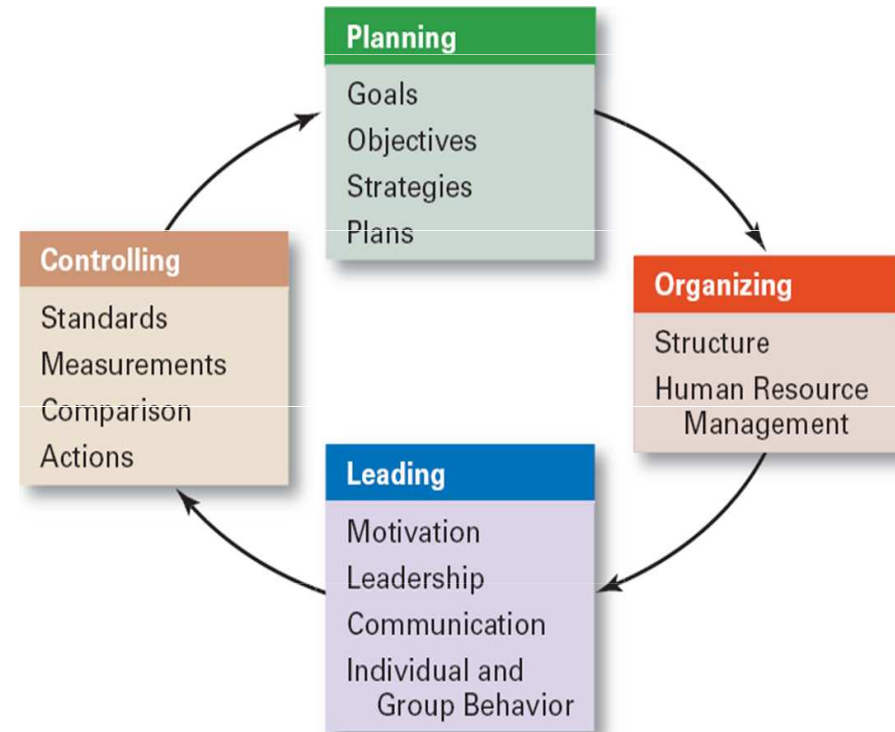
Empowering employees
Control systems provide managers with information and feedback on employee performance.

Protecting the workplace
Controls enhance physical security and help minimize workplace disruptions.

Planning
- Goals
- Objectives
- Strategies
- Plans

Organizing
- Structure
- Human Resource Management

Leading
- Motivation
- Leadership
- Communication
- Individual and Group Behavior

Controlling
- Standards
- Measurements
- Comparison
- Actions

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The Control Process

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

Measuring

Sources of Information (How)

Personal observation

Statistical reports

Oral reports

Written reports

Control Criteria (What)

| Employees	Budgets
Satisfaction	Costs
Turnover	Output
Absenteeism	Sales

	Advantages	Drawbacks
Personal Observation	• Get firsthand knowledge • Information isn't filtered • Intensive coverage of work activities	• Subject to personal biases • Time-consuming • Obtrusive
Statistical Reports	• Easy to visualize • Effective for showing relationships	• Provide limited information • Ignore subjective factors
Oral Reports	• Fast way to get information • Allow for verbal and nonverbal feedback	• Information is filtered • Information can't be documented
Written Reports	• Comprehensive • Formal • Easy to file and retrieve	• Take more time to prepare

Comparing

= determining the degree of variation between actual performance and the standard (e.g. planned value).

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).
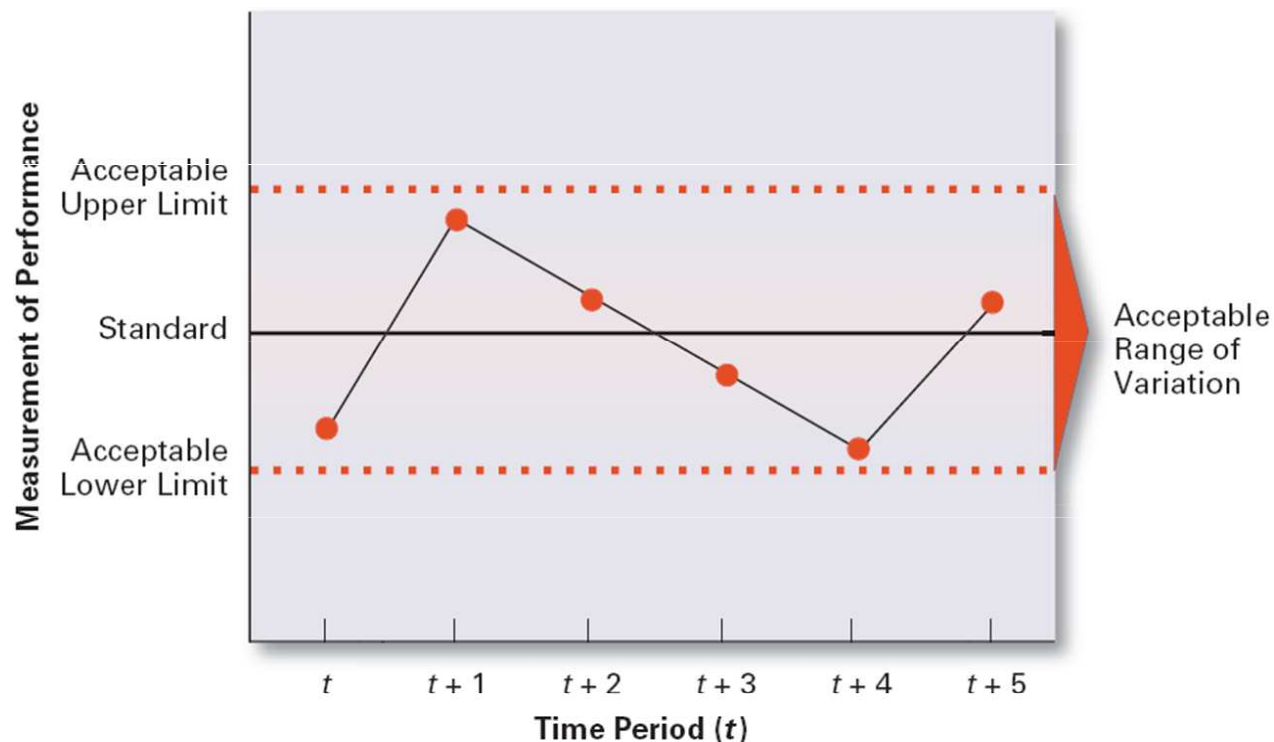
Taking Managerial Action

"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
  - ✓ fire / hire employees

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
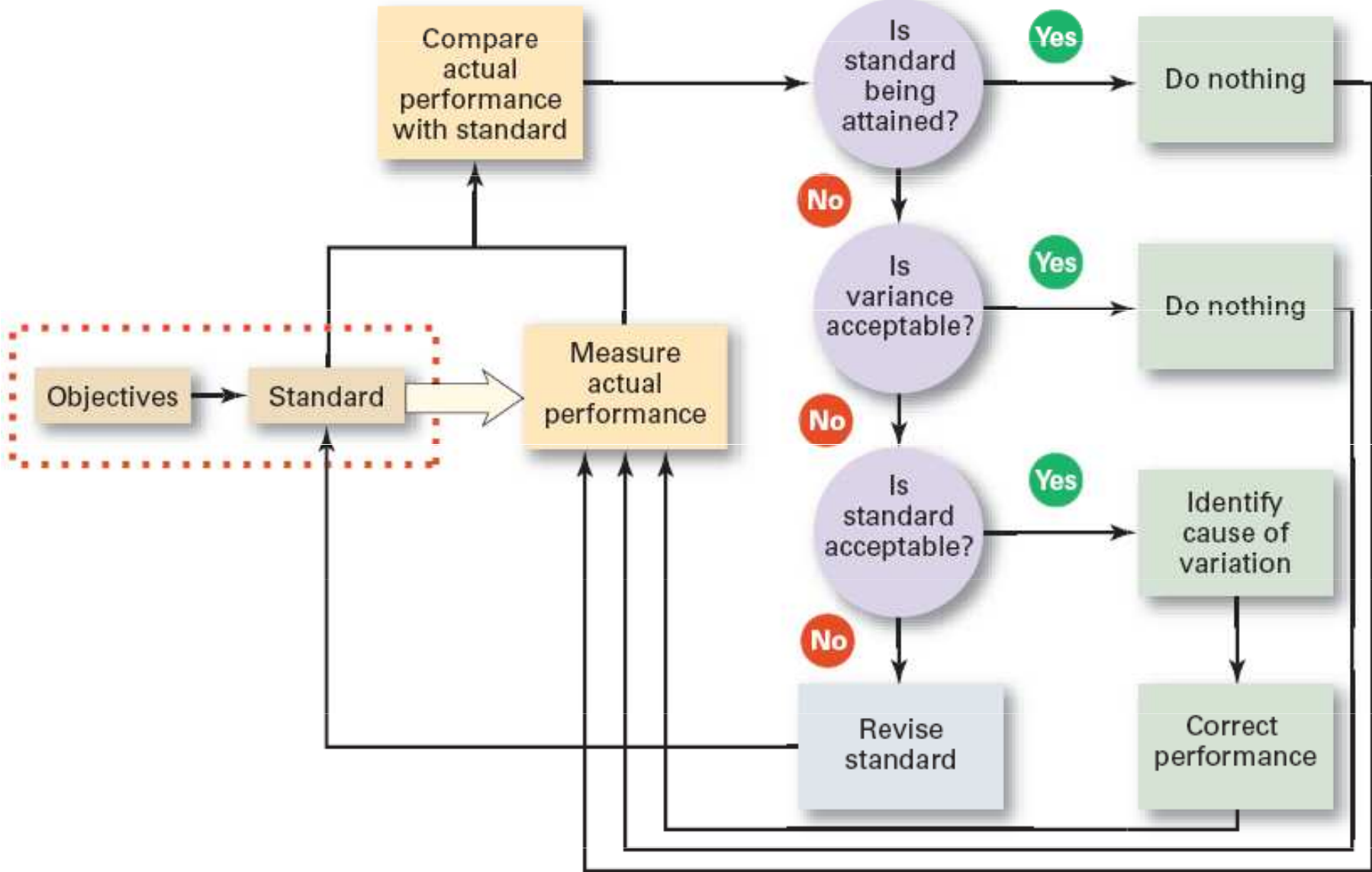
Controlling for Organizational Performance

(Organizational) performance defined

What Is Performance?

The end result of an activity

ORGANIZATIONAL Performance

The accumulated end results of all of the organization's work processes and activities

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.

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

Ultimately, productivity is a measure of **how efficiently** employees do their work.

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Types of control

Input	→	Processes	→	Output

Feedforward Control

Feedforward Control	**Concurrent Control**	**Feedback Control**
Anticipates problems	Corrects problems as they happen	Corrects problems after they occur

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.

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.
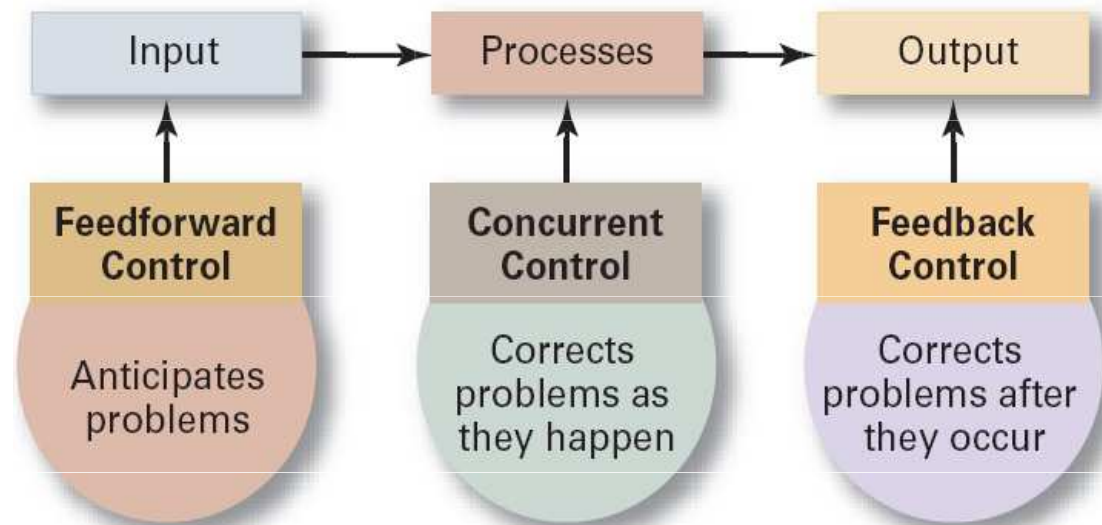
Selected Tools and Techniques

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.

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Implementing an Internal Benchmarking Best Practices Program

1. Connect best practices to strategies and goals.

2. Identify best practices throughout the organization.

3. Develop best practices reward and recognition systems.

4. Communicate best practices throughout the organization.

5. Create a best practices knowledge-sharing system.

6. Nurture best practices on an ongoing basis.

Contemporary Issues in Control (1/2)

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

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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Control Measures for Employee Theft / Fraud

Feedforward	Concurrent	Feedback
Careful prehiring 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 polices.	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.

Control Measures for Deterring or Reducing 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 (2/2)

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).

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

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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

management information system (MIS)

data

information

balanced scorecard

benchmarking

corporate governance