




Controlling






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- In earlier chapters we frequently mentioned the uncertainties of managing and the need to consider management an **unending process**. Plans do not always work out as intended. People do not always accept delegation. Management cannot always motivate people to work toward objectives. The environment changes, and the organization must adapt accordingly. You may have begun to wonder how management determines whether it is, in fact, attaining its objectives, how it detects its own and its workers' mistakes, and how it determines when the organization needs to adapt. The answer is through the process of controlling. **Controlling, in simple terms, is the process by which management determines whether its decisions are correct or need to be modified.**
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- **NATURE AND PURPOSE OF CONTROLLING**

- Control, like power, is a word that evokes negative reactions. To many people control connotes restraint—the leash on a dog, coercion, confinement—images contrary to our ideal of individual liberty. Because of this preconception, controlling is one of the most misunderstood management functions. If asked to guess what control means to a manager, people often respond with something like keeping workers in line. This is correct in a sense. One aspect of control is indeed ensuring conformity of a sort.
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- However, to think of controlling as simply restraining negative behavior and making everyone to the line is to miss its primary purpose in management. As a management function:
 - **Controlling is the process of ensuring that the organization is attaining its objectives.**
 - Controlling involves setting standards, measuring actual performance, and taking corrective action when performance deviates significantly from standards.
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- **Why Control Is Necessary**



- Managers begin performing the control function the very moment they formulate objectives and establish an organization. **This control is essential if the organization is to succeed.**

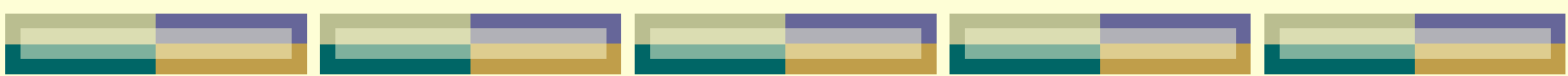
Without it chaos would reign, making group effort of any complexity virtually impossible to unify. Even more important, goals, plans, and structure give the organization direction by channeling and guiding work. Thus, control is an inherent outgrowth of organization. This is a major reason why Peter Drucker states, "**The synonym for control is direction.**"



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- **Uncertainty.**
 - Plans and organizational designs are only a picture of what management would like the future to hold. Many things could prevent this "picture" from "developing" properly. Changes in laws, social values, technology, competition, and other environmental variables could make plans that were feasible when formulated unobtainable at a later time. In order to anticipate and react to change, organizations need an effective mechanism that can assess its impact on the organization.
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- In addition, even the best organizational design has some negative consequences. Specialized division of labor, for example, may introduce problems of coordination, friction between work groups, and dull and unmotivating jobs. A design that looks **good on paper** or proved successful in another time or place **may not accomplish as much as management hopes.**
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- Adding to the uncertainty of managing is the fact that much of the organization's work is done by people. Unlike computers, people cannot be programmed to perform tasks with absolute precision. Despite the many recent advances in understanding behavior at work, managers are still a long way from being able to predict consistently how people will respond to instructions, authority, and leadership
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- **Crisis Prevention.**
- Mistakes, problems in the internal variables, and mis-judgment in predicting the future or people tend to compound in effect if not quickly corrected. By analogy, if you make an error when computing the balance in your checking account, you might later make the more serious mistake of bouncing a check, which could injure your relationship with a friend or business and damage your credit rating. The potential for such compounding of error is high for an organization because of the high degree of interdependency.
- **One of the major reasons controlling is imperative is to enable the organization to detect its errors and turn from them before they impair attaining objectives**







- **Encourage Success.**
- Equally important is the need to move toward what is good, which is the positive side of the control process. By comparing actual performance to plans—answering the question "How far have we come?"— management identifies the successes of the organization as well as its failures. In other words, an important use of controlling is to uncover which of the organization's activities contribute most effectively to attainment of overall objectives. **By identifying its errors and successes**, management is able to adapt the organization to the demands of a dynamic environment quickly enough to make the greatest possible progress toward its broad objectives.

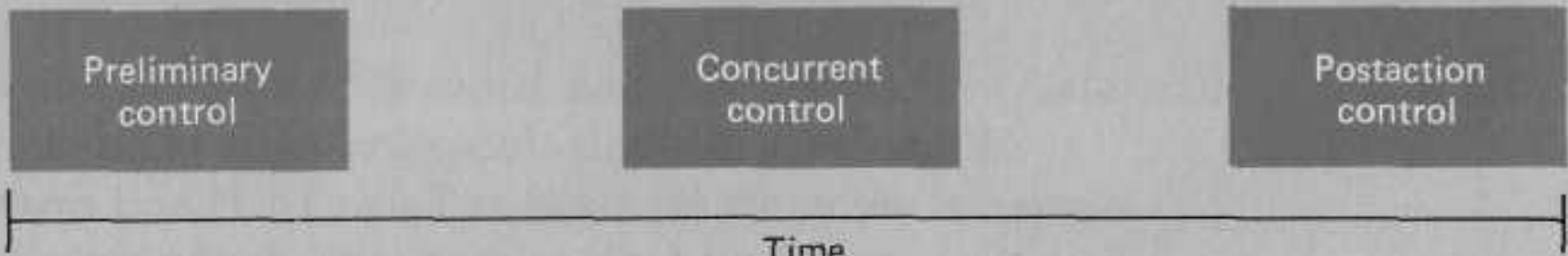



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- **Pervasiveness of Controlling.**
 - Control is a critical and complex function of management. One of the most important things you should realize about control is its pervasiveness. Control **is not** restricted to the province of the manager designated the "controller" and his or her assistants. **Every manager, regardless of level, must make control an integral part of his or her job, even if not specifically told to do so**
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- Controlling is a fundamental aspect of the management process. Planning, organizing, and motivating cannot be wholly separated from controlling. In fact, they are an integral part of the organization's overall control system. This will become clearer as we discuss the three primary forms of control—**preliminary, concurrent, and postaction**. All of these forms are similar since the aim of each is to help ensure that actual results will be as close to desired results as possible. They differ in the time of application .
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- **Preliminary Control**

- The control process resembles an iceberg in that a large part of it is not in open view. Some of an organization's most important controls are hidden within other functions of management. Planning and organizing, for example, although seldom recognized as control mechanisms, allow preliminary control over an organization's activities. **It is called preliminary because it takes place before actual work begins.**
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- The main means of preliminary control is carrying out—as opposed to creating—policies, procedures, and rules. Because policies and rules are created to support plans, enforcing them is a way of making certain that work will progress toward **desired objectives**. Similarly, writing clear job descriptions, effectively communicating objectives to subordinates, and staffing with qualified people are ways to increase the probability that the organizational structure will operate as planned. Organizations use preliminary control in three main areas: human resources, material resources, and financial resources.
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- **Preliminary Control: Human Resources.**

- Organizations exercise preliminary control over human resources by carefully identifying the skills needed to perform a job and by selecting people who appear best qualified to do the job.

Establishing a minimum level of education or experience and checking the applicant's credentials help ensure that workers will be capable of performing their delegated duties.

Setting compensation at an equitable level and administering psychological tests or conducting extensive pre-hiring interviews also can improve the probability of attracting and retaining competent workers.





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- Most organizations continue to exercise preliminary control over human resources after ***hiring by training***. Training enables managers and workers to learn the skills they need or to improve their current skills before they actually begin work. This increases the probability that they will be able to perform as expected.
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- **Preliminary Control: Materials.**
- It clearly is impossible to make products of high quality from inferior raw materials. It also does little good to catch faulty materials after they have been used. Production firms therefore routinely exercise preliminary control over their material resources. They do so by establishing engineering standards for minimal quality and physically checking the material to make sure it conforms to these requirements. One means of preliminary control is selecting a supplier who has proved dependable in meeting specifications. Also related to preliminary control of material resources is maintaining inventories of raw material at a level that will prevent shortages





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- **Preliminary Control: Financial Resources.**
 - The principal tool for preliminary control of financial resources **is the budget**, which also serves a planning function. Budgets operate as a preliminary control mechanism by ensuring that cash will be available when it is needed by the organization. They also set limits on spending that help prevent a department or the organization as a whole from exceeding its cash resources.
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- **Concurrent Control**

- As its name implies, concurrent control operates while work is in progress. It most often is exercised over the work of subordinates and traditionally is the responsibility of immediate superiors. Regular checking of a subordinate's work and discussion of problem areas and suggestions for improvement help prevent deviations that would be seriously detrimental if allowed to continue.
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- Concurrent control of this type is not literally concurrent, in the sense of being simultaneous with the work. Rather, concurrent control is based on the measurement of actual results after some work has been performed toward desired objectives. To accomplish this, management requires feedback.
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- **Feedback Systems.**
- **Feedback**, in the sense we use the term here, **is data about results**. A simple example of feedback is telling subordinates specifically why what they did was undesirable when you see them make mistakes. **Feedback systems enable managers to identify and correct the many unforeseen problems that can cause an organization to deviate from the most effective route to its objectives.**









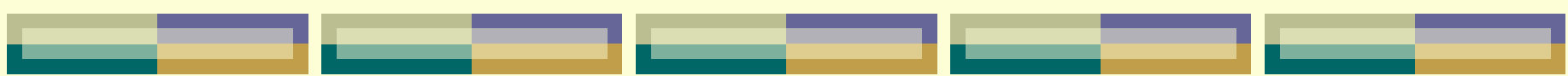
- **Postaction Control**

- Concurrent control employs feedback while work is in progress so that problems can be corrected before they become too costly and the desired level of objectives can be attained. Postaction control employs feedback **after** the work is completed. After the action being controlled has been completed or a predetermined amount of time has passed, **actual results are compared to desired results.**
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- Although postaction control is applied too late to correct problems as they develop it has two important functions. One is that postaction controls provide management with planning data if similar work is to be undertaken in the future. By comparing actual results with desired results, management is better able to determine how realistic its plans were. It also obtains information about problems and can formulate new plans to overcome them in the future.
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- The second function of postaction control is as an aid to motivation. If management bases motivational rewards on a certain level of performance, actual performance clearly must be measured fairly and accurately. Measuring performance and giving appropriate rewards are necessary to build future expectations about the close relationship between actual results and rewards
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- **THE CONTROL PROCESS**
 - There are three distinct stages in the control process:
 - **setting standards,**
 - **comparing performance to standards,**
 - **taking necessary corrective action.**
 - Each stage involves several activities.
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- **Setting Standards**
- The first phase of the control process, setting standards, highlights how closely intertwined the planning and control functions are. **Standards are specific objectives against which progress can be measured.** They are an outgrowth of the planning process: All control standards ought to be derived from the organization's multiple objectives and strategies.
- Two essential characteristics distinguish objectives that can be used as standards, namely, a **time limit** and a **specific criterion** against which accomplished work can be compared.





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- *To earn a profit of \$1 million during 2009 is example of objectives that serve as control standards. The specific, measurable criterion of \$1 million and the time limit of one year are called **performance indicators**. A performance indicator defines exactly what must be achieved to attain an objective. This enables the manager to compare actual work to planned productivity and to answer the crucial questions "What do we have to do to reach our objective?" and "What remains to be done?" For instance, if management finds that the firm has earned only \$400,000 during the first six months, it knows that the company will have to step up productivity greatly to meet the planned goal of \$1 million by year's end.*
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- It is relatively easy to establish performance indicators in such areas as profit, sales, and cost of materials because they are quantifiable. But several crucial organizational goals cannot readily be expressed numerically.







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- *Improving morale, for example, is an objective that often seems difficult or impossible to quantify. One cannot rate morale accurately on a scale or reduce it to dollar equivalents. But effective organizations try to overcome the quantification difficulty. For example, one can obtain information about the mental state of workers through attitude surveys and interviews. Furthermore, some of these apparently unmeasurable objectives can be quantified **indirectly** by measuring manifestations of the indicator.*
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- **Low labor turnover, for instance, is usually a manifestation of high satisfaction.**

Therefore, the turnover rate may be used as a performance indicator for setting standards in the area of satisfaction. For example, top management could establish an objective for the coming year of reducing turnover from 10 percent to 6 percent.




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- The danger in using manifestations instead of direct measurement is that other variables may affect the manifestation being measured. Low turnover, to continue our example, could reflect generally poor economic conditions rather than high satisfaction. In other words people stay not because their needs are genuinely being met, but because they believe it would be hard to get another job. The manager must always be careful to distinguish between symptoms and true causes. It is essential for management to recognize that many factors in the situation affect the outcome of a managerial action.
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- Inability to express a performance indicator directly in quantifiable terms should not, as it often is, be used as an excuse to avoid setting a control standard in the area. Even a subjective indicator, provided its limitations are recognized, **is better than none at all.** Without some form of performance indicator there can be no effective managerial control.
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- **Comparing Performance to Standards**
- **The second stage of the control process is comparing actual performance to the standards established.** In this phase the manager determines **how well results have lived up to expectations.** He or she also makes another crucial decision: how much variation from standards is permissible or relatively safe. The second stage concludes with an evaluation that should lead to an action decision. The several activities involved in the second phase often are the most visible aspect of a managerial control system. They are the establishment of the range of deviation, measurement, communication, and evaluation.







- **Range of Deviation and the Exception Principle.**


- A performance indicator provides the members of an organization with a clear, distinct target for their efforts. However, except in a few specialized instances, it seldom is necessary for the organization to hit the target precisely. In fact, one of the characteristics of a good control standard is a realistic safety margin.
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- What the **range of deviation** should be is a critical decision. If too much deviation is allowed, problems could reach crisis dimensions. On the other hand, reacting to every minor variation would be so time consuming and costly that the control system would overwhelm and disrupt the organization, preventing rather than facilitating attainment of objectives. In such situations there would be a high degree of control, but the control process would be ineffective.
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- **To be effective, controls must be economical. The benefits must exceed the costs of the control system.** Costs of control include the time it takes managers and nonmanagers to collect, communicate, and analyze the information, any equipment used for control, and the costs for storage, transmission, and retrieval of control-related information. In the case of a business, if the profits realized from the investment in control do not exceed its costs, the controls would be uneconomical and counterproductive. One way management can increase the economic efficiency of its control system is by practicing management by exception. Often called the exception principle, this holds that only significant variations from standards should trigger the control system.
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- **Measurement of Results.**


- Measuring results, determining how much progress toward meeting standards has been made, is usually the most troublesome and expensive aspect of controlling. To be effective, the system of measurement must be congruent with the activity being controlled. To begin, management must select a unit of measure that can be converted into the units in which the standard is expressed. Thus, if the standard is profit, measurement would be in the form of dollars or a percentage, depending on how the standard was stated. If or turnover is being controlled, the measurement would be in the form of a percentage. As a general rule, the standard will specifically state what should later be measured.
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- In a business the purpose of measurement is to increase profits, not to find out exactly what is happening.)









- **Communication.**

- Communication plays a key role in making control effective. For a control system to operate effectively, both standards and results must be communicated to appropriate people in the organization. This information must be accurate and timely and has to reach responsible people in a form that lends itself to decision making and action. It also is desirable to be sure the standards are well understood when they are set. This requires effective communication between those who set the standards and those who are to attain them.
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- The major stumbling blocks in gathering and transmitting control information are various communication problems discussed earlier. While some information can be gathered and reported by machine, most involves some human interpretation. **The human element introduces the potential for distortion of the information on which control decisions will be based.** Distortion may become an acute problem when subjective assessments are unavoidable.
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- **Evaluation.**
 - The final phase of the comparison stage is evaluation of the information on results. The manager must decide whether the information is valid and whether it is significant. By significant it is meant both whether the information is applicable to the phenomenon under investigation and is genuinely important in decision making.
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- **Action**
 - After evaluation, the control process enters its third stage. The manager must decide upon one of three courses of action:
 - **do nothing,**
 - **correct the deviation,**
 - **revise the standard.**
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- **Do Nothing.**
- The primary purpose of control is to ensure that the management process is actually getting the organization to perform according to plan. Fortunately, things do not always go wrong. If the comparison of results to standards indicates that objectives are being attained, the best course of action may be to do nothing. However, management cannot presume that what occurred during one time period will happen again. Even the most effective techniques will eventually be affected by change. Thus, even if the control system shows that all is going well at one point, management will **continue to measure performance, thereby repeating the control cycle.**






- **Correct Deviation.**
- A control system that does not provide a means of correcting significant deviations from standards before truly serious problems arise is valueless. Naturally, correction must focus on the true source of the problem. Ideally, the measuring stage should pinpoint the cause as well as the amount of deviation from standards. This involves effective decision making. However, since much organizational work is the result of complex group effort, absolute precision in identifying the root of a problem may not always be possible. **The focus of correction, in any event, should be getting an understanding of the causes of deviation and getting the organization back on course**





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- **Revise Standards.**
 - Not all significant deviations from standards should be corrected. **Sometimes the standard itself may be unrealistic because standards are based on plans, which are only predictions of the future.** Standards must be reviewed whenever plans are revised.
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- **CHARACTERISTICS OF EFFECTIVE CONTROL**


- In order to fulfill their true purpose—facilitating attainment of objectives—**controls must possess several important characteristics**




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- **Strategic**
 - To be effective a control system must be strategic—that is, **it must reflect and support the organization's established overall priorities.** The relative difficulty of quantifying or measuring an activity, if cost-effective, should never be a criterion in deciding whether to institute a control mechanism. Activities that are not of strategic importance should be measured only infrequently and not even reported upon unless deviation is unusually severe. Absolute control over trivia like minor expenses is meaningless and may even detract from attaining important objectives.
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- **Focused on Results**

- The ultimate aim of the control process is not to gather information, set standards, or identify problems. **It is to attain objectives.** Measuring and reporting, while important, are only a means to this end. If management wants control to be effective, it must keep these highly visible means from acquiring more importance than the organization's true objectives. It would be foolish, for example, to fire the company's best salesperson just because he or she never turns expense accounts in on time.
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- **Appropriate**
 - To be effective the control must be **appropriate to the activity being controlled**. It must genuinely measure and evaluate what is of true importance. An inappropriate control may conceal, rather than reveal, critical information
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- **Timely**

- Controls must be timely to be effective.


Timeliness in control is not high speed or high frequency, but an interval of measurement and evaluation suitable to the phenomenon being controlled. The most appropriate time interval is determined by such factors as the time frame of the base plan, the rate of change, and the cost of measuring and reporting results.






- **Flexible**
- If the unforeseen were predictable, there would be no need for controls. **Controls, like plans, have to be flexible enough to absorb change.** Moderate changes in plans seldom require a severe change in the control system. For example, a company with a line of 100 products should use inventory control techniques that can accommodate a fairly substantial increase or decrease in the number of products and the amount of each kept on hand. Without a sufficient degree of flexibility, the control system will become incapable of coping with the very situations it is meant to handle.





- **Simple**

- The most effective controls are generally the simplest ones that will serve the purpose for which they are intended. **Simple controls require less effort and are more economical.** But most important, if the control system is too complex for the people who interact with it to understand and support, **it cannot possibly be effective.** Excessive complexity leads to confusion, a synonym for lack of control. To be effective, a control must be designed in accordance with the needs and abilities of the people who implement it and are affected by it.
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- **Economic**
- If there is a firm rule of control, it would have to be that any control that costs more than it contributes to objectives results not in added control but misdirection, another synonym for lack of control.

