ALWAYS LEARNING

Management: Arab World Edition
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Chapter 17: Introduction to Controlling

Lecturer: [Insert your name here]

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Learning Outcomes

Follow this Learning Outline as you read and study this chapter.

17.1 What Is Control and Why Is It Important?

- Define controlling.

- Discuss the reasons why control is important.

- Explain the planning–controlling link.

17.2 The Control Process

- Describe the three steps in the control process.

- Explain why **what** is measured is **more critical** than **how** it's measured

- Explain the three courses of action managers can take in controlling.

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Learning Outcomes

17.3 Controlling Organizational Performance

- Define organizational performance.

- Describe three most frequently used measures of organizational performance.

17.4 Tools for Measuring Organizational Performance

- Contrast feedforward, concurrent, and feedback controls.

- Explain the types of financial and information controls managers can use.

- Describe how balanced scorecards and benchmarking are used in controlling.

Learning Outcomes

17.5 Contemporary Issues in Control

- Describe how managers may have to adjust controls for cross-cultural differences.

- Discuss the types of workplace concerns managers face and how they can address those concerns.

- Explain why control is important to customer interactions.

- Define corporate governance.

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What Is Control and Why Is It Important?

1. **Define** controlling.

2. Discuss the **reasons** why control is important.

3. Explain the **planning–controlling** link.

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What Is Control?

Controlling

– 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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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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Exhibit 17–1 The Planning–Controlling Link

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The Control Process

1. Describe the **three steps** in the control process.

2. Explain why **what** is measured is **more critical** than **how** it's measured.

3. Explain the **three** courses of action managers can take in controlling.

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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Exhibit 17–2 The Control Process

Step 1. Measuring Actual Performance

GOALS AND OBJECTIVES

Organizational
Divisional
Departmental
Individual

Step 2. Comparing Actual Performance Against Standard

Step 3. Taking Managerial Action

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Step 1: Measuring
How and What We Measure

Sources of Information (**How**)

– Personal observation

– Statistical reports

– Oral reports

– Written reports

Control Criteria (**What**)

Employees

– Satisfaction

– Turnover

– Absenteeism

Budgets

– Costs

– Output

– Sales

Exhibit 17–3   Common Sources of Information for Measuring Performance

|	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

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Step 2: 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).

Exhibit 17–4
Defining the Acceptable Range of Variation
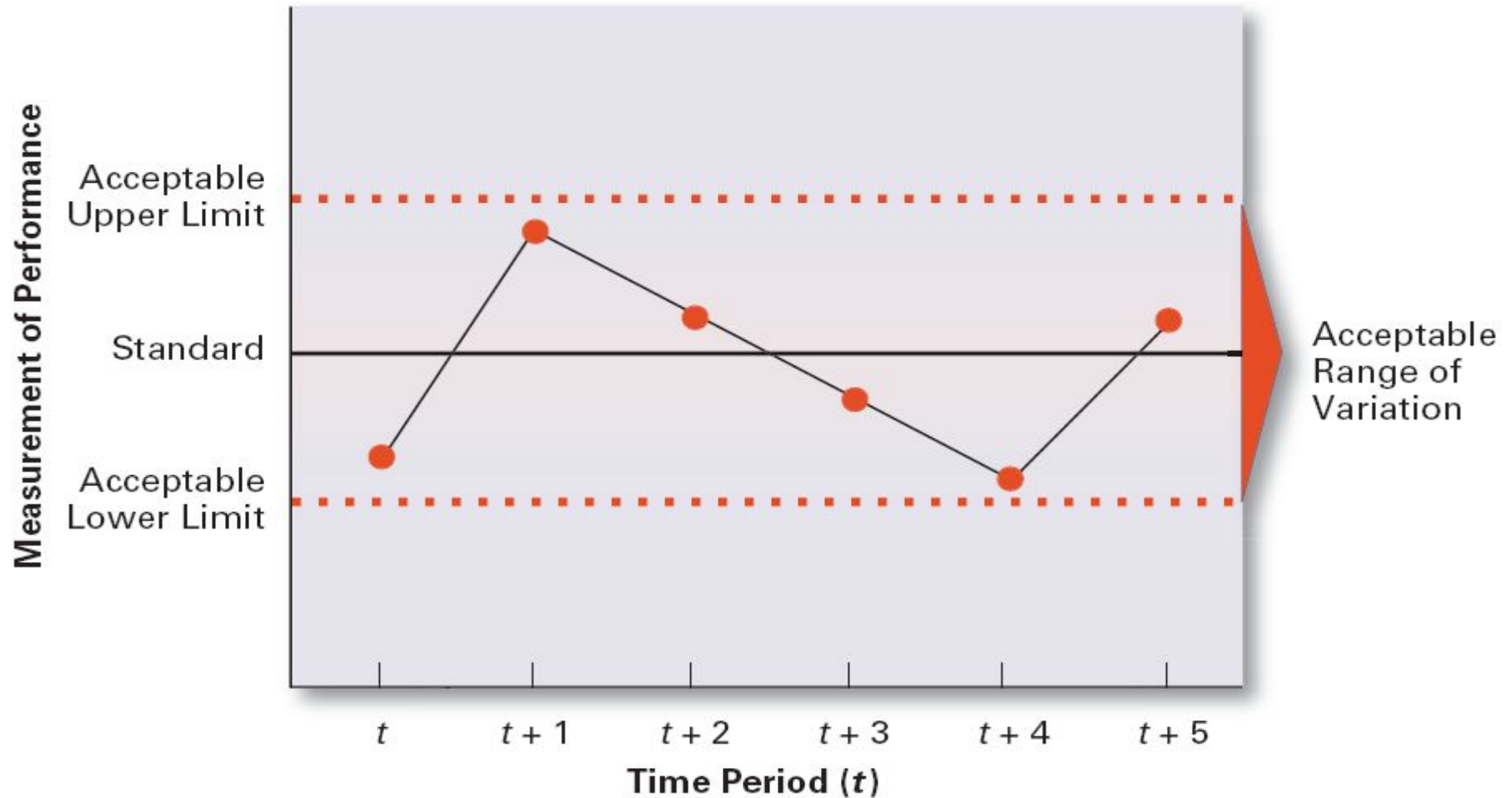
Exhibit 17–5
Example of Determining Significant Variation

Middle East Green View Supplies – *June Sales*

Product	Standard	Actual	Over (Under)
Vegetable plants	1,075	913	(162)
Perennial flowers	630	634	4
Annual flowers	800	912	112
Herbs	160	140	(20)
Flowering bulbs	170	286	116
Flowering bushes	225	220	(5)
Heirloom seeds	540	672	132
Total	3,600	3,777	177

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Step 3: 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

Step 3: 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.

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Exhibit 17–6
Managerial Decisions in the Control Process

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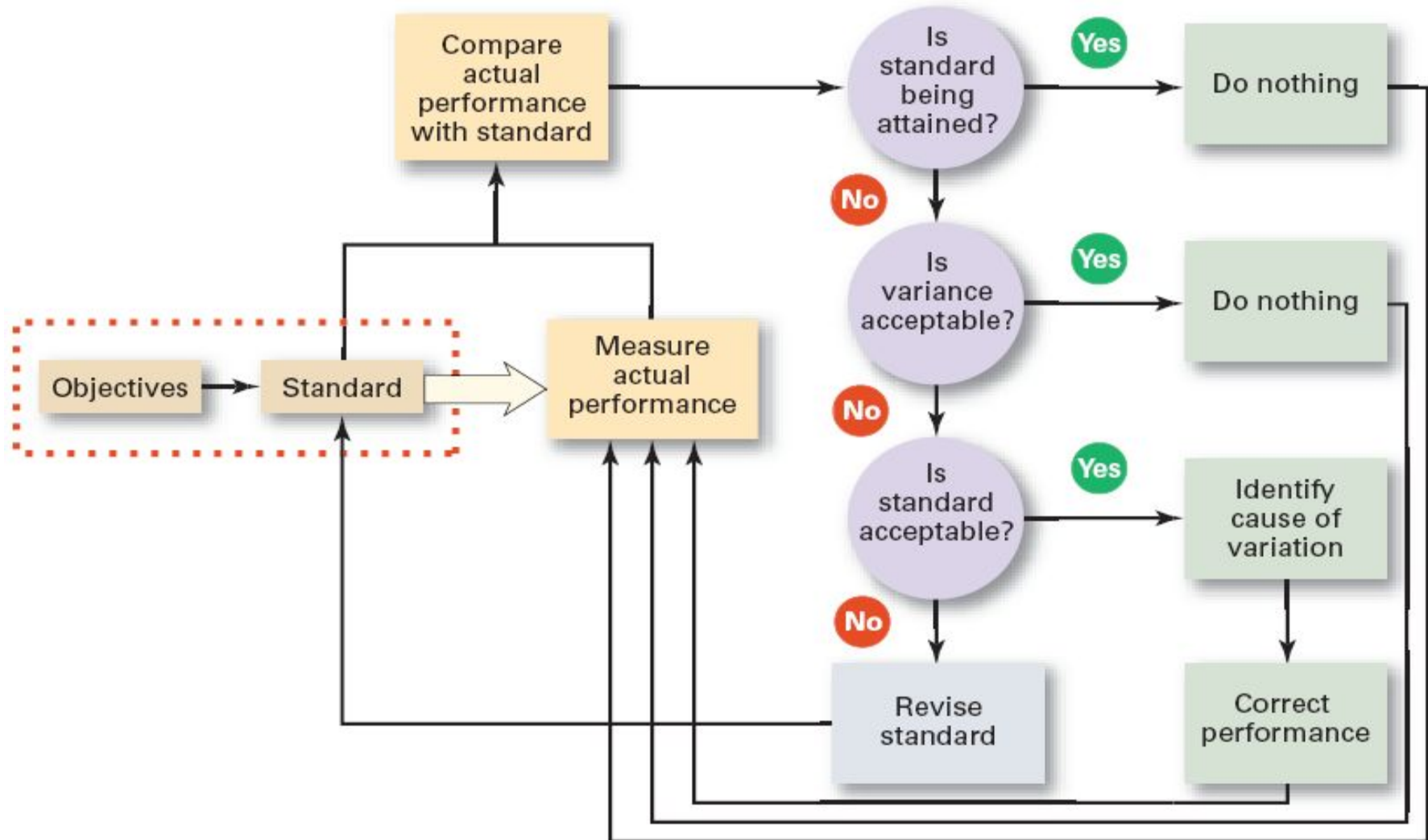
Controlling Organizational Performance

1. **Define** organizational performance.

2. Describe **three** most frequently used **measures** of organizational performance.

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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

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

Organizational Performance Measures (cont'd)

Organizational Effectiveness

– Measuring how appropriate organizational goals are and how well the organization is achieving its goals.

– This is the bottom-line for managers.

– It is what guides managerial decisions in designing strategies and work activities and in coordinating the work of employees.

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Organizational Performance Measures Industry and Company Rankings

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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Exhibit 17–7
Some Popular Rankings in the Arab World

Al-Iktissad Wal-Aamal Magazine
Top 500 Arab companies

Forbes magazine
The Top 40 Arab Brands

Arabian Business Magazine
Top 50 GCC Companies

Middle East magazine
The Top 100 Arab Companies

Business and Finance Group
Top 100 GCC Companies

Arabian Business Magazine
50 Most Admired Arab Companies

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Tools for Measuring Organizational Performance

1. Contrast **feedforward**, **concurrent**, and **feedback** controls.

2. Explain the types of **financial** and **information controls** managers can use.

3. Describe how **balanced scorecards** and **benchmarking** are used in controlling.

Feedforward, Concurrent, and Feedback Controls – 1

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

Feedforward, Concurrent, and Feedback Controls – 2

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.

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Exhibit 17–8   Types of Control

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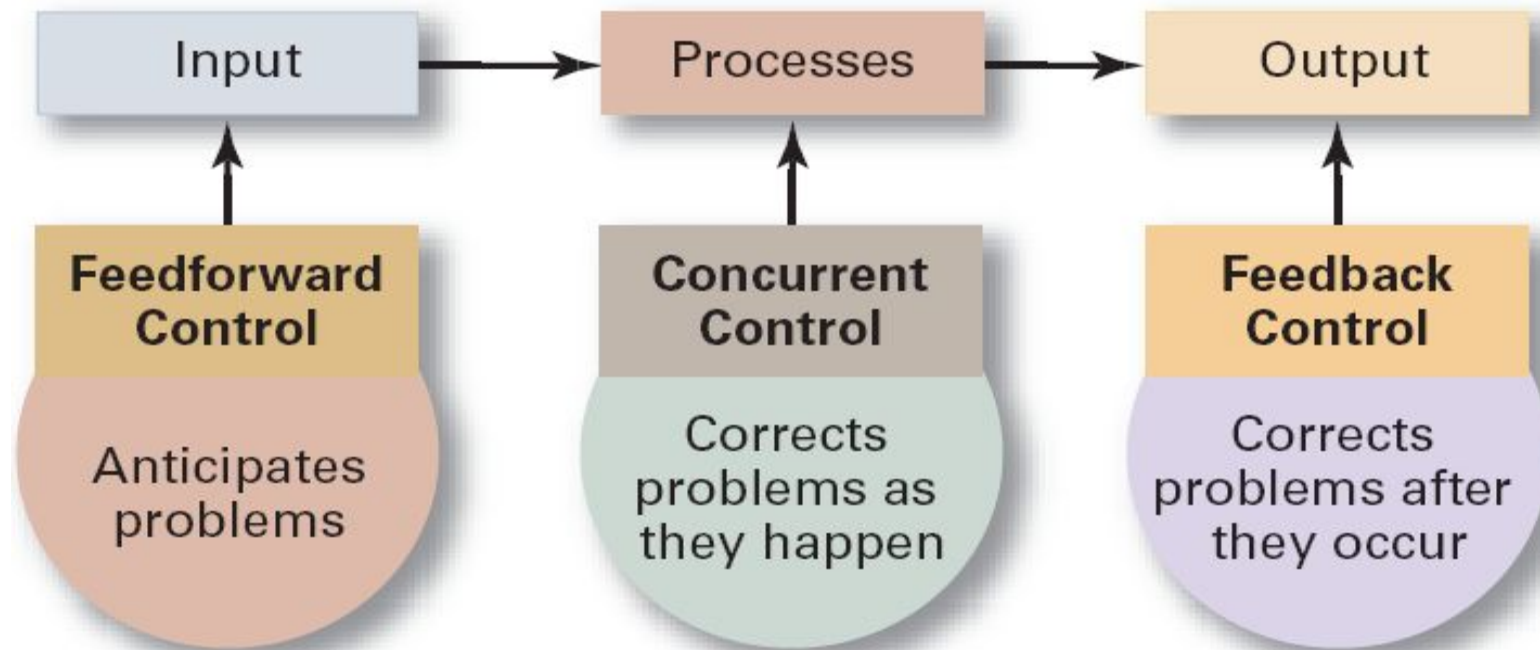
Financial Controls

Traditional Controls

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

Exhibit 17–9   Popular Financial Ratios

Objective	Ratio	Calculation	Meaning
Liquidity	Current ratio	$$\frac{\text{Current assets}}{\text{Current liabilities}}$$	Tests the organization's ability to meet short-term obligations
	Acid test	$$\frac{\text{Current assets less inventories}}{\text{Current liabilities}}$$	Tests liquidity more accurately when inventories turn over slowly or are difficult to sell
Leverage	Debt to assets	$$\frac{\text{Total debt}}{\text{Total assets}}$$	The higher the ratio, the more leveraged the organization

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Exhibit 17–9   Popular Financial Ratios (cont'd)

Objective	Ratio	Calculation	Meaning
Activity	Inventory turnover	$\dfrac{\text{Sales}}{\text{Inventory}}$	The higher the ratio, the more efficiently inventory assets are being used
	Total asset turnover	$\dfrac{\text{Sales}}{\text{Total assets}}$	The fewer assets used to achieve a given level of sales, the more efficiently management is using the organization's total assets
Profitability	Profit margin on sales	$\dfrac{\text{Net profit after taxes}}{\text{Total sales}}$	Identifies the profits that are being generated
	Return on investment	$\dfrac{\text{Net profit after taxes}}{\text{Total assets}}$	Measures the efficiency of assets to generate profits

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Financial Controls (cont'd)

Managing Earnings

– "**Timing**" income and expenses to **enhance** current financial results, which gives an **unrealistic** picture of the organization's financial performance.

– New laws and regulations require companies to **clarify** their financial information.

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Balanced Scorecard

– Is a measurement tool that uses goals set by managers in **four areas** to measure a company's performance:

  – **Financial**

  – **Customer**

  – **Internal processes**

  – **People/innovation/growth assets**

– Is intended to emphasize that **all** of these areas are important to an organization's success and that there should be a balance among them.

Information Controls

Purposes of Information Controls

– As a tool to help managers **control other organizational activities**.

  – Managers need the right **information** at the right **time** and in the right **amount**.

– As an organizational area that managers need to control.

  – Managers must have comprehensive and secure controls in place to protect the organization's important information.

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Information Controls (cont'd)

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

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.

Exhibit 17-10
Suggestions for Internal Benchmarking

1. *Connect best practices to strategies and goals.* The organization's strategies and goals should dictate what types of best practices might be most valuable to others in the organization.

2. *Identify best practices throughout the organization.* Organizations must have a way to find out what practices have been successful in different work areas and units.

3. *Develop best practices reward and recognition systems.* Individuals must be given an incentive to share their knowledge. The reward system should be built into the organization's culture.

4. *Communicate best practices throughout the organization.* Once best practices have been identified, that information needs to be shared with others in the organization.

5. *Create a best practices knowledge-sharing system.* There needs to be a formal mechanism for organizational members to continue sharing their ideas and best practices.

6. *Nurture best practices on an ongoing basis.* Create an organizational culture that reinforces a "we can learn from everyone" attitude and emphasizes sharing information.

Source: Based on T. Leahy, "Extracting Diamonds in the Rough," *Business Finance,* August 2000, pp. 33–37.

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Contemporary Issues in Control

1. Describe how managers may have to adjust controls for **cross-cultural** differences.

2. Discuss the types of **workplace concerns** managers face and how they can address those concerns.

3. Explain why control is important to **customer interactions**.

4. Define **corporate governance**.

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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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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.

Exhibit 17–11 Controlling Employee Theft

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.	

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Exhibit 17–12   Workplace Violence

Witnessed yelling or other verbal abuse   42%

Yelled at co-workers themselves   29%

Cried over work-related issues   23%

**Seen someone purposely damage
machines or furniture   14%**

Seen physical violence in the workplace   10%

Struck a co-worker   2%

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Exhibit 17–13 Controlling Workplace Violence

MBWA (managing by walking around) to identify potential problems; observe how employees treat and interact with each other.

Provide employee assistance programs (EAPs) to help employees with behavioral problems.

Enforce organizational policy that any workplace rage, aggression, or violence will not be tolerated.

Use careful prehiring screening.

Never ignore threats.

Train employees about how to avoid danger if situation arises.

Clearly communicate policies to employees.

Ensure management commitment to functional, not dysfunctional, work environments.

Allow employees or work groups to "grieve" during periods of major organizational change.

Be a good role model in how you treat others.

Use corporate hotlines or some other mechanism for reporting and investigating incidences.

Use quick and decisive intervention.

Get expert professional assistance if violence erupts.

Provide necessary equipment or procedures for dealing with violent situations (cell phones, alarm system, code names or phrases, and so forth).

Communicate openly about incidences and what's being done.

Investigate incidences and take appropriate action.

Review company policies and change, if necessary.

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).

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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

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

economic value added (EVA)

market value added (MVA)

Terms to Know (cont'd)

management information
  system (MIS)

data

information

balanced scorecard

benchmarking

employee theft

service profit chain

corporate governance

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