Chapter 7:
CONTROL'S APPLICATION AND TECHNIQUES

Week 18th January 2010

Introduction To Management

ND/BNF/29,30

ND/SCR/06

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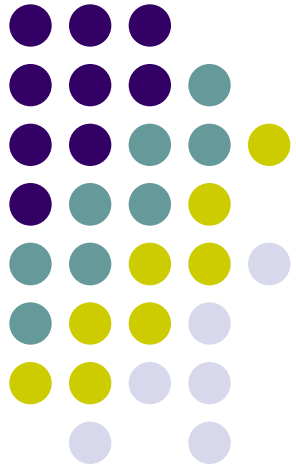
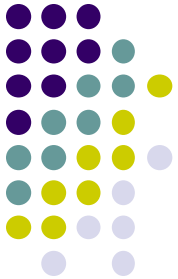


Lecture Outline

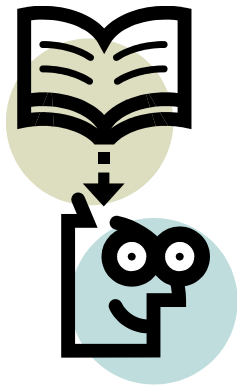


- Definition
- The need for control
- Process
- Types of Control: Pre, Online & Post
- Terms involves in Control
- How to make Controls Effective
- Techniques of Control
- Role of Management in Control Function

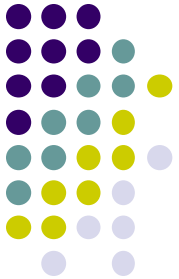
DEFINITION

What is control?

- The process of ensuring that actual activities conform to planned activities.



Why Control is needed?



- plans can go awry.
- helps managers monitor environmental changes and their effects on the organization’s progress.

CONTROL PROCESS

1) ***Setting of Standards***

- Management must devise and communicate well-defined and clear plans.
- Example: the management expects production of 100 units in an 8 hour shift.

CONTROL PROCESS (con't)

2) ***Measurement of Actual Performance***

- The management through MIS expects to receive continuous reports on the work in progress.
- *Example*: the management at the end of every shift will receives a production report of the shift.

Must be timely, accurate and user friendly.

CONTROL PROCESS (con't)

3) ***Comparison of actual performance with standards***.

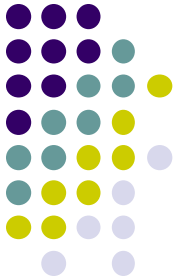
- Compare measured results with the established targets or standards previously set.
- ***Example:*** an evaluation approach that provides an individual with ratings of performance from a variety of relevant sources, such as superiors, peers, and customers (*see Figure 1*)

Sample of job evaluation

Rating Factors	Level of Performance				
	Unsatisfactory	Conditional	Satisfactory	Above Satisfactory	Outstanding
Attendance					
Appearance					
Dependable					
Quality of work					
Quantity of work					
Relationship with people					
Job knowledge					

Figure 1

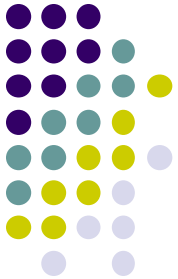
CONTROL PROCESS (con't)



4) ***Corrective action***

- When standards are not met, managers must carefully assess the reasons why and take corrective action.
- This could involve a change in one or more activities of the organization's performance.
- ***Example:*** the franchise owner/manager might discover that more counter workers are needed to meet the five-minute customer-waiting standards set by McDonald's.

CONTROL PROCESS (con't)



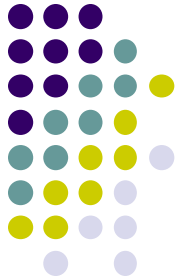
5) **Modify Plans**

- Managers need to check standards periodically to ensure that standards are still relevant for the future.
- Adjust standards if necessary.
- Even if standards have simply been met, changing conditions, such as improvements in the skill levels of employees, may make it possible to raise standards for future efforts.
- Conversely, a manager may feel that achieving a particular standard consumes too many resources and may decide to lower the standards.

Types of Control

1) **Pre-Control**
   - Also known as ***preventive control***.
   - It refers to control which are introduced to prevent deviation of actual activity from plan-performance.
   - The purpose of pre-control is to prevent and minimize possibility of occurrence of deviation.
   - ***Example***: Preventive maintenance of machinery to minimize machinery breakdown.

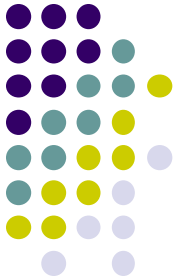
Types of Control (con't)



2) ***Online Control***

- Also known as ***real-time control.***
- It is introduced to monitor an on-going activity with a view to correct deviations as they occur so that final and actual results are measure up to plan performance.
- ***Example:*** Controls maintaining certain temperature in the finance room so the time elapsed between occurrence of deviation and the corrective action is so minimal that one can control the performance as it occurs.

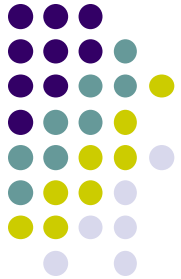
Types of Control (con't)



3) ***Post Control***

- Also known as ***feed-back or after event control.***
- These are activated after the actual performance is over and it is compared with plan versus actual performance.
- ***Example:*** Budget control.

How to make Controls Effective



1) ***Future-oriented***

- To be effective, control systems need to help regulate future events, rather than fix blame for past ones.

2) ***Multidimensional***

- Control systems need to be multidimensional to capture the major relevant performance factors. E.g. A General Manager assembly plant would quickly run into difficulty if it focused only on a quantity without concern for issues such as quality, scrap rate, and overhead.

3) ***Cost-effective***

- The cost of controls is an important consideration. E.g. one control factor at McDonald's is clean rest rooms.

4) ***Accurate***

- Since controls provide the basis for future actions, accuracy is vital. Inaccurate control data may be worse than no controls at all, since managers may make poor decisions on the basis of such data.

How to make Controls Effective (con't)

5) ***Realistic***

- Control systems should incorporate realistic expectations about what can be accomplished. Otherwise, employees are likely to view the control system as unreasonable and may ignore or even sabotage it.

6) ***Timely***

- Controls systems are designed to provide data on the state of a given production cycle or process as of a specific time. E.g data may be supplied in a monthly sales report, a weekly update on a project, or a daily production report, or it may come from quality inspections on a production line.

7) ***Monitorable***

- Control systems should be designed so that they can be monitored to ensure that they are performing as expected.

8) ***Acceptable to organization members***

- Control systems operate best when they are accepted by the organization members who are affected by them. Otherwise, members may take actions to override and undermine the controls.

9) ***Flexible***

- Organizations must be flexible to respond rapidly to changing environments, control systems need to be flexible enough to meet new or revised requirements.

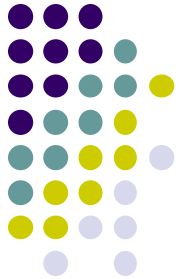
Techniques of Control

1) **Break-even Analysis**

- All costs are covered but no profit is made.
- It is a no profit, no loss situation.
- At break-even point, revenues are equal to total costs.
- ***Formula:***

  Total Costs : Fixed Costs + Variable Costs

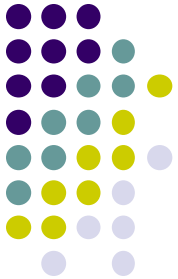
Techniques of Control (con't)



2) **Quality Control**

- To ensure that appropriate standards of quality are set and that vacancies beyond the tolerances are rejected.
- It rests on the assumption that in mass scale production, no two units are identical.
- ***Benefits:***
  - Reduction in rejection of finished goods by customers (zero-defects)
  - Reduction in cost of scrap or reworking.
  - Better utilization of production facilities.
  - Improved corporate image and goodwill.
  - Quality consciousness amongst employees.

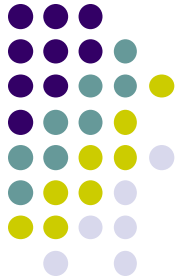
Techniques of Control (con't)



3) **Financial Ratios**

- Ratios mean mathematical relationship between two figures. Ratios are useful because absolute figures all by themselves may convey little or even misleading information.
- The significance of some figures is fully appreciated only when they are read in context of other figures.
- ***Example***: Net Profit is understood as
  - Sales (Profit Margin)
  - Capital Employed (Return on Investment)

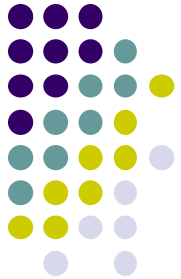
Techniques of Control (con't)



4) **Budgeting**

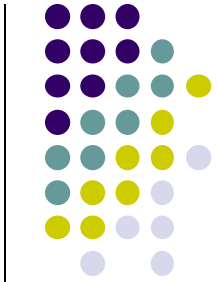
- Budgeting is a formal expression of the plans, objectives and goals prescribed by top management in advance for the enterprise as a whole as well as for each sub-division of the enterprise.
- A budget is a guide or a blue-print for a particular period.
- As the period progress, actual results are compared with the budgets with a view to detect deviations from planned results so that corrective action may be initiated without further loss.

Objectives of Budgeting



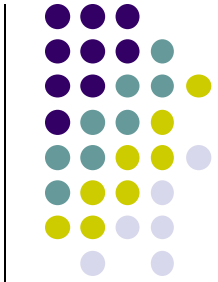
1) It forces people to think ahead and view external & internal environment carefully.
2) Budget serves as an instrument for co-ordination of various departments and various sections within each department.
3) It focuses immediate managerial attention on finance for prompt corrective action.
4) Budget links responsibility of a manager with the performance expected of him in a clear and unambiguous manner.
5) Budgeting pre-supposes sound organization structure.

Objectives of Budgeting (con't)



6) The budgeting process forces management to quantity.
7) It entails well-thought out and comprehensive utilization of organization's resources.
8) It pinpoints wastages and inefficiencies, and provides for timely managerial action.
9) It forces management to evaluate and records of their achievements regularly.

Types of Budgets



1) ***On the basis of functions***

- Sales budget, production budget, inventory budget, etc.

2) ***On the basis of accounting information***

- Trading Account, Profit & Loss Account and Balance Sheet.

3) ***On the basis of time period***

- Long term and short-term budget.
- ***Example of long-term budget:*** Brunei Darussalam's Five-Year Economic Development Plan (2001-2005).
- ***Example of short-term budget:*** His Majesty's 57th one-month celebration period.

Budgetary Control System

1) Budget should be sufficiently detailed to set clear targets for the managers responsible for their execution.
2) Budget should be flexible when required by the changed conditions.
3) Budget must clearly link individual(s) with responsibility for performance.
4) The setting of budgets must involve participation from all members whose performance is covered by the budget.
5) Budget should be simple that it can be used for control on organization's activities.

Role of Management in Control Function

1) Management must recognize individual differences and uniqueness in designing & implementation of control.
2) Management must stress self-control wherever possible.
3) The design & implementation of control must involve participation by the members for whom it is meant.
4) The control system must emphasize problem-solving attitude rather than a fault-finding attitude.
5) It must emphasize positive reinforcement rather than punishment for deviations.