The Principles of Management

Mason Carpenter, Talya Bauer, and Berrin Erdogan
Chapter 15

The Essentials of Control

- Understand what is meant by organizational control
- Differentiate among different levels, types, and forms of control
- Know the essentials of financial controls
- Know the essentials of non-financial controls
- Know the basics of lean control systems
- Craft a balanced scorecard

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## Organizational Control in the P-O-L-C Framework

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<th>Planning</th>
<th>Organizing</th>
<th>Leading</th>
<th>Controlling</th>
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<td>4. Groups/Teams</td>
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<td>5. Motivation</td>
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**Strategy Formulation** to **Strategy Implementation**
What Is Organizational Control?

The _______ by which an organization influences its subunits and members to _______ in ways that lead to the attainment of organizational _____ and ________

Establish ______

Take ______ action

_______ performance
to standards
The Costs and Benefits of Organizational Controls

**Key Costs**
- Financial costs
- Culture and reputation costs
- Responsiveness costs
- Poorly implemented controls

**Key Benefits**
- Cost and productivity control
- Quality control
- Opportunity recognition
- Manage uncertainty and complexity
- Decentralized decision making
Managers must weigh the costs and benefits of control

When properly designed, controls lead to better performance by enabling the organization to execute its strategy better
Discussion

• What do properly conceived and implemented controls allow an organization to do?
• What are three common steps in organizational control?
• What are some of the costs of organizational controls?
• What are some of the benefits of organizational controls?
• How do managers determine when benefits outweigh costs?
Controls allow you to align the smaller pieces with the big picture
Two Levels of Control: __________ and __________

________ control is concerned with ________ the strategy as it is being implemented, detecting any problem areas, and making any ________ adjustments.

________ control is concerned with ________ the strategy and includes ________ return on investment, net profit, cost, and product quality.
### Types and Examples of Control

#### Control Proactivity

<table>
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<th>Behavioral Control</th>
<th>Outcome Control</th>
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<td>Organizational culture</td>
<td>Market demand or economic forecasts</td>
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<td>Hands-on management supervision during a project</td>
<td>The real-time speed of a production line</td>
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<td>Qualitative measures of customer satisfaction</td>
<td>Financial measures such as profitability, sales growth</td>
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#### Feedback Control

#### Concurrent Control

#### Feedforward Control
Feedforward Controls proactively address what can be done ahead of time to help the plan succeed.

Concurrent Controls involve the real-time process of monitoring and adjusting ongoing activities and processes.

Feedback Controls involve the gathering of information about a completed activity, evaluating that information, and taking steps to improve the similar activities in the future.
Controls as part of a feedback loop

PLANNING → ORGANIZING → CONTROLLING → LEADING
Controls differ depending on what is monitored

Outcome controls are judged by the end result of the organization’s activities.

Behavioral controls involve monitoring how the organization’s members behave on a daily basis.
Financial and Non-Financial Controls

**Financial Controls**

- Involves the management of costs and expenses in order to control them in relation to budgeted amounts
- Will include aspects of the organization’s financial condition such as assets, sales, and/or profitability forecasts

**Non-Financial Controls**

- Tracking aspects of the organization that aren’t immediately financial in nature, but are expected to lead to positive performance
- Can include customer loyalty, referrals, employee satisfaction, and other such performance measures
Discussion

• What is the difference between strategic and operating controls? What level of management would be most concerned with operating controls?

• If feedforward controls are the most proactive, then why do organizations need or use feedback controls?

• What is the difference between behavioral and outcome controls?

• What is the difference between non-financial and financial controls? Is a financial control a behavioral or an outcome control?
Financial Controls

Financial controls tell you when good organizational performance is reflected in good financial outcomes
To secure financing, banks commonly request “the ________”

The __________ Sheet

The Income/Profit and Loss (______) Statement

Cash _____ Statement
The “balance sheet”

The balance sheet is a snapshot that includes total assets (what the business owns – items of value) and total liabilities (what the business owes).

Balance Sheets are usually done at the end of each month.
Contrasting Assets

- **Current Assets** are those assets that are cash or can be readily converted to cash in the short term.
  - Examples include accounts receivable or inventory.

- **Fixed Assets** are those assets that are not easily converted to cash in the short term - they are assets that only change over the long term.
  - Examples include land, buildings, equipment, vehicles, furniture and fixtures.
Liabilities

Current Liabilities are those coming due in the short term

Long-term Debt/Liabilities come due in a time period of more than one year

Owner's Equity refers to the amount of money the owner has invested in the firm
Discussion

• What are financial controls? In your answer, describe how you would go about building a budget for an organization.

• What is the difference between an asset and a liability?

• What is the difference between the balance sheet and an income statement? How are the balance sheet and income statement related?

• Why is it important to monitor an organization’s cash flow?
Non-Financial Controls

Customer satisfaction is an increasingly important metric in strong non-financial controls
Measuring non-financial controls is important as they are likely to affect profitability in the long term.
Common Mistakes with Non-Financial Controls

- Not Using Non-Financial Controls
- Not Being Linked to Strategy
- Failing to Validate the Links
- Failing to Set Appropriate Performance Targets
- Measurement Failures
Solutions To Common Mistakes of Non-Financial Controls

Use Non-Financial Controls

Tie the Controls to the Strategy

Validate the Links Between Non-Financial and Financial Controls

Set Appropriate Performance Targets

Validate the Performance Measures
Sample Mix of Non-Financial and Financial Controls

Non-Financial Controls
- Recruiting & Selection
- Qualified, Satisfied, Staff
- Satisfied Customers
- Profitable Store

Financial Controls

Measures
- Work experience
- Education
- Supervision
- Fairness
- Quality
- Frequency
- Growth
- Profitability
Discussion

• What are non-financial controls? Name some examples.
• What should be the relationship between non-financial and financial controls?
• What are some common mistakes made by managers with regard to non-financial controls?
• What are some solutions to the common mistakes you identified?
Lean Controls

Lean is a system of non-financial controls used to improve product and service quality and decrease waste.

“it is a process for measuring and reducing inventory and streamlining production”
The Toyota Motor Corporation developed lean tools and techniques in the 1950s. Lean organizations strive to improve flow by reducing the size of production batches, and in the process, they increase flexibility and lower costs.
The Elimination of Waste is the Soul of Lean

Muda is a key concept in lean control

Muda is a Japanese term for activity that is wasteful and doesn't add value

Lean is much more about the conservation of valuable resources than it is about cost cutting.
The Five Core Principles of Lean
*Lean Thinking* by James Womack and Daniel Jones

1. **Define ______ from the __________ Perspective**
2. **Describe the _______ ______ for Each Product or Service**
3. **Create ______ in Each Value Stream**
4. **Produce at the Pace (*Pull*) of ______ Customer ________**
5. **Strive to _________ _________ All Business Operations**
Kaizen = Continuous Improvement

Companies that implement lean adopt the Japanese mindset that it is always possible to improve any business activity.
Discussion

• What is lean control?
• What types of industries might find lean controls valuable?
• What does *muda* mean and what are some examples of it?
• What are the five lean principles?
• Pick a company you are familiar with – what would it need to do differently to comply with the five lean principles?
Just as tasters can rate a wine on numerous dimensions, the balanced scorecard integrates a variety of measures of organizational quality and performance.
Advantages of Balanced Scorecard

More clearly will tie goals and objectives to the organizations’ vision, mission and strategy.

Moves beyond the financial measurement of just goals and objectives.
Vision & Mission

The Strategy

The Balanced Scorecard and Strategy Map

Strategic Initiatives (what we need to do)

Metrics (how we will know when we’ve done it)

Personal Objectives (what I need to do)
The Strategy Map: A Causal Relationship Between Non-Financial and Financial Controls

- **Learning & Growth**
  - Strategy – what we want to achieve in terms of learning and growth goals and objectives?
  - Initiatives – what we need to do in this area
  - Metrics – How will we measure our success

- **Internal**
  - Strategy – what we want to achieve in terms of internal goals and objectives?
  - Initiatives – what we need to do in this area
  - Metrics – How will we measure our success

- **Customer**
  - Strategy – what we want to achieve in terms of customer goals and objectives?
  - Initiatives – what we need to do in this area
  - Metrics – How will we measure our success

- **Financial**
  - Strategy – what we want to achieve in terms of financial goals and objectives?
  - Initiatives – what we need to do in this area
  - Metrics – How will we measure our success
Your Personal Balanced Scorecard

**Learning and growth: your skills and learning ability**

**Internal: your physical health and mental state**

**Customer (external): relations with your spouse, children, friends, employer, and colleagues**

**Financial stability. To what degree are you able to fulfill your financial needs?**
Discussion

• What is a balanced scorecard? What is the difference between a balanced scorecard and a simple list of non-financial and financial controls?

• What roles do vision, mission, and strategy play in the development of a balanced scorecard?

• What might be some of the differences between an organization’s balanced scorecard and your personal balanced scorecard? What might be some of the similarities?

• Under what circumstances should an organization’s or individual’s balanced scorecard be revised?