PART V: Controlling

Chapter 13

Foundations of Control
Learning Outcomes

After reading this chapter, I will be able to:

1. Define control.
2. Describe three approaches to control.
3. Explain why control is important.
4. Describe the control process.
5. Distinguish among the three types of control.
6. Describe the qualities of an effective control system.
7. Identify the contingency factors in the control process.
Learning Outcomes (cont’d)

After reading this chapter, I will be able to:

8. Explain how controls can become dysfunctional.
9. Describe how national differences influence the control process.
10. Identify the ethical dilemmas in employee monitoring.
11. Describe how an entrepreneur controls for growth.
Chapter opening

• OSHA is a federal agency

• Some executives feel that OSHA (Occupational Safety and Health Administration) regulations are costly to follow,
  ➢ require them to implement practices and/or procedures that are not needed, and just plain restrictive.

• OSHA sees it differently
  ➢ they try to prevent workplace injury or death, and feel their efforts are worth it.
• Consider the following:
• 1) OSHA Compliance Officers from El Paso, Texas

- made two Taylor Communications employees
  - who were working 80 feet above ground
- stop working until a fall protection system was installed.
- The workers and the company complied with the request.
• 2) A construction worker at National Riggers and Erectors is glad such fall protection exists.
  ➢ While working in Green Bay, Wisconsin,
    ❖ on the renovation (修繕) to the Green Bay Packers’ football stadium
  ➢ this worker slipped off a beam while working some six stories (層) above the ground.
  ➢ The fall protection gear saved his life,
    ❖ and 60 days later protected a second fall victim at the Stadium.
• 3) Two window washers
  - at the Bakers Hughes Building in Houston
  - were left dangling high above the ground after their scaffolding broke
  - Again, their safety equipment prevented them from certain death.

• 4) An OSHA inspector
  - ordered a worker out of an unshored trench alongside a road in El Paso, Texas.
  - Not 30 seconds after leaving, the trench collapsed.
    - He was saved.
  - In contrast, a 30 year old worker in Georgetown SC
    - who was working in an unshored trench when it collapsed,
  - was buried alive.
• For OSHA, success stories like those above are what employee safety is all about
  ➢ preventing the death or serious injury of all employees.

• To them, that justifies their imposing controls on businesses and organizations.
What Is Control?

• **Control**
  - The process of monitoring activities to ensure that they are being accomplished as planned and of correcting any significant deviations
  - An effective control system ensures that activities are completed in ways that lead to the attainment of the organization’s goals.
Characteristics of Three Approaches to Control Systems

• **Market**
  - Uses external market mechanisms, such as price competition and relative market share, to establish standards used in system to gain competitive advantage.

• **Bureaucratic**
  - Emphasizes organizational authority of administrative and hierarchical mechanisms to ensure appropriate employee behaviors and to meet performance standards.

• **Clan** (門閥、黨派)
  - Regulates employee behavior by the shared values, norms, traditions, rituals, beliefs, and other aspects of the organization’s culture.

*Exhibit 13.1*
The Control Process

Exhibit 13.2
Steps in the Control Process

• Measuring actual performance
  - Personal observation, statistical reports, oral reports, and written reports
  - Management by walking around (MBWA)
    - A phrase used to describe when a manager is out in the work area interacting with employees
Steps in the Control Process (cont’d)

• Comparing actual performance against a standard
  ➢ Comparison to objective measures: budgets, standards, goals
  ➢ Range of variation
    ❖ The acceptable parameters of variance between actual performance and the standard
Defining an Acceptable Range of Variation

Exhibit 13.3
Steps in the Control Process (cont’d)

• Taking managerial action to correct deviations or inadequate standards
  - Immediate corrective action
    - Correcting a problem at once to get performance back on track
  - Basic corrective action
    - Determining how and why performance has deviated and then correcting the source of deviation
  - Revising the standard
    - Adjusting the performance standard to reflect current and predicted future performance capabilities
## South Atlantic’s Distributors’ Sales Performance for July (hundreds of cases)

<table>
<thead>
<tr>
<th>BRAND</th>
<th>STANDARD</th>
<th>ACTUAL</th>
<th>OVER (UNDER)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heineken</td>
<td>1,075</td>
<td>913</td>
<td>(162)</td>
</tr>
<tr>
<td>Molson</td>
<td>630</td>
<td>634</td>
<td>4</td>
</tr>
<tr>
<td>Beck’s</td>
<td>800</td>
<td>912</td>
<td>112</td>
</tr>
<tr>
<td>Moosehead</td>
<td>620</td>
<td>622</td>
<td>2</td>
</tr>
<tr>
<td>Labatt’s</td>
<td>540</td>
<td>672</td>
<td>132</td>
</tr>
<tr>
<td>Corona</td>
<td>160</td>
<td>140</td>
<td>(20)</td>
</tr>
<tr>
<td>Amstel Light</td>
<td>225</td>
<td>220</td>
<td>(5)</td>
</tr>
<tr>
<td>Dos Equis</td>
<td>80</td>
<td>65</td>
<td>(15)</td>
</tr>
<tr>
<td>Tecate</td>
<td>170</td>
<td>286</td>
<td>116</td>
</tr>
<tr>
<td><strong>Total cases</strong></td>
<td><strong>4,300</strong></td>
<td><strong>4,464</strong></td>
<td><strong>164</strong></td>
</tr>
</tbody>
</table>
Types Of Control

• Feedforward control
  ➢ Control that prevents anticipated problems

• Concurrent control
  ➢ Control that takes place while an activity is in progress

• Feedback control
  ➢ Control that takes place after an action
    ❖ Provides evidence of planning effectiveness
    ❖ Provides motivational information to employees
Types of Control

Exhibit 13.5

Feedforward control
Anticipates problems

Concurrent control
Corrects problems as they happen

Feedback control
Corrects problems after they occur
The Qualities Of An Effective Control System

- Accuracy
- Timeliness
- Economy
- Flexibility
- Understandability
- Reasonable criteria
- Strategic placement
- Emphasis on the exception
- Multiple criteria
- Corrective action
What Contingency Factors Affect the Design of A Control System?

- Size of the organization
- The job/function’s position in the organization’s hierarchy
- Degree of organizational decentralization
- Type of organizational culture
- Importance of the activity to the organization’s success
Contingency Factors in the Design of Control Systems

Contingency Variable

- **Organization size**
  - Small
  - Large

- **Position and level**
  - High
  - Low

- **Degree of decentralization**
  - High
  - Low

- **Organizational culture**
  - Open and supportive
  - Threatening

- **Importance of an activity**
  - High
  - Low

Control Recommendations

- Informal, personal, management by walking around
- Formal, impersonal, extensive rules and regulations
- Many criteria
- Few, easy-to-measure criteria
- Increased number and breadth of controls
- Reduced number of controls
- Informal, self-control
- Formal, externally imposed controls
- Elaborate, comprehensive controls
- Loose, informal controls

Exhibit 13.6
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A Special Case of Control: Sarbanes-Oxley Act

- A law establishing procedures for public companies to report their financial status.
  - The CEO and CFO must personally certify the organization’s financial reports.
  - The organization must have in place procedures and guidelines for audit committees.
  - CEOs and CFOs must reimburse the organization for bonuses and stock options when required by restatement of corporate profits.
  - Personal loans or lines of credit for executives are now prohibited.
A Special Case of Control: Sarbanes-Oxley Act (cont’d)

Penalties for noncompliance:

- Falsely stating corporate financials, can result in the executive being fined up to $1 million and imprisoned for up to 10 years.
- If the executive’s action is determined to be willful, both the fine and the jail time can be doubled.

**Reporting of corporate misdeeds**

- Establish an environment free from reprisals
  - Protection for employees who come forward (whistle-blowing) and report wrongdoing by executives.
Controls And Cultural Differences

• Methods of controlling employee behavior and operations can be quite different in different countries.

• Distance creates a tendency for formalized controls in the form of extensive, formal reports.

• In less technologically advanced countries, direct supervision and highly centralized decision making are the basic means of control.

• Local laws constraint the corrective actions that managers can take foreign countries.
The Dysfunctional Side Of Control

• Problems with unfocused controls
  ➢ Failure to achieve desired or intended results occur when control measures lack specificity

• Problems with incomplete control measures
  ➢ Individuals or organizational units attempt to look good exclusively on control measures.

• Problems with inflexible or unreasonable control standards
  ➢ Controls and organizational goals will be ignored or manipulated.
Contemporary Issues In Control

• The right to personal privacy in the workplace versus:
  ➢ Employer’s monitoring of employee activities in the workplace
  ➢ Employer’s liability for employees creating a hostile environment
  ➢ Employer’s need to protect intellectual property

*Remember: The computer on your desk belongs to the company.*
Perspective on Employee Theft

• Industrial security
  ➢ The opportunity to steal presents itself through lax controls and favorable circumstances.

• Criminologists
  ➢ Employees steal to relieve themselves of financial-based or vice-based pressures.

• Clinical psychologists
  ➢ Employees steal because they can rationalize whatever they are doing as being correct and appropriate behavior.
## Control Measures for Deterring or Reducing Employee Theft or Fraud

<table>
<thead>
<tr>
<th>FEEDFORWARD</th>
<th>CONCURRENT</th>
<th>FEEDBACK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Careful prehiring screening.</td>
<td>Treat employees with respect and dignity.</td>
<td>Make sure employees know when theft or fraud has occurred—not naming names but letting people know this is not acceptable.</td>
</tr>
<tr>
<td>Establish specific policies defining theft and fraud and discipline procedures.</td>
<td>Openly communicate the costs of stealing.</td>
<td>Use the services of professional investigators.</td>
</tr>
<tr>
<td>Involve employees in writing policies.</td>
<td>Let employees know on a regular basis about their successes in preventing theft and fraud.</td>
<td>Redesign control measures.</td>
</tr>
<tr>
<td>Educate and train employees about the policies.</td>
<td>Use video surveillance equipment if conditions warrant.</td>
<td>Evaluate your organization’s culture and the relationships of managers and employees.</td>
</tr>
<tr>
<td>Have professionals review your internal security controls.</td>
<td>Install “lock-out” options on computers, telephones, and e-mail. Use corporate hot lines for reporting incidences. Set a good example.</td>
<td></td>
</tr>
</tbody>
</table>


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**Exhibit 13.7**
Suggestions for Achieving a Supportive Growth-Oriented Culture

Keep the lines of communication open—inform employees about major issues.

Establish trust by being honest, open, and forthright about the challenges and rewards of being a growing organization.

Be a good listener—find out what employees are thinking and facing.

Be willing to delegate duties.

Be flexible—be willing to change your plans if necessary.
Suggestions for Achieving a Supportive Growth-Oriented Culture (cont’d)

Provide consistent and regular feedback by letting employees know the outcomes—good and bad.

Reinforce the contributions of each person by recognizing employees’ efforts.

Continually train employees to enhance their capabilities and skills.

Maintain the focus on the venture’s mission even as it grows.

Establish and reinforce a “we” spirit since a successful growing venture takes the coordinated efforts of all the employees.
How An Entrepreneur Can Control For Growth

• Planning for growth
  ➢ By addressing growth strategies as part of business planning but not being overly rigid in planning.

• Organizing for growth
  ➢ The key challenges include finding capital, finding people, and strengthening the organizational culture.

• Controlling for growth.
  ➢ Maintaining good financial records and financial controls over cash flow, inventory, customer data, sales orders, receivables, payables, and costs.
How Does the Entrepreneur Exit the Venture

• Reasons for harvesting a venture
  - Cashing out of the investment in a venture
  - Exiting due to poor financial returns or organizational performance of the venture
  - A desire to pursue other ventures

• Business valuation methods
  - Asset valuation
  - Earnings valuation
  - Cash flow valuation