Session 15.11

CONTROLLING AS A MANAGEMENT FUNCTION

Introduction and Overview of Controlling

Regardless of the thoroughness of the planning done, a program or decision still may be poorly or improperly implemented without a satisfactory control system in place.

Controlling is that process of regulating organizational activities so that actual performance conforms to expected organizational goals and standards. While interrelated with all of the other management functions, a special relationship exists between the planning function of management and controlling. Planning, essentially, is the deciding of goals and objectives and the means of reaching them. Controlling lets manager tell if the organization is on track for goal achievement, and if not, why not. A well-developed plan should provide benchmarks that can be used in the control process.

Controls serve other important roles including helping managers cope with uncertainty, detecting irregularities, identifying opportunities, handling complex situations, and decentralizing authority. Like planning, controlling responsibilities differ by managerial level with control responsibilities paralleling planning responsibilities at the strategic, tactical, and operational level.

There are several major steps usually identified in the basic control process. These are, in order, determining the areas to be controlled, establishing the appropriate standards, measuring performance, comparing the performance against standards, recognizing performance if standards are met or exceeded or take corrective actions as necessary if not, and adjusting either/or standards and measures as necessary. Of course it would be impossible to control all activity in an organization. Consequently, it is important for the manager to decide which activities should have the control process applied. Argues that managers need to consider controls mainly in areas in which they depend on others for resources necessary to reach organizational goals. Four conditions help delineate when controls should be used. These are having a high dependence on the resource, having a high expectation that the resource flows would be unacceptable without proper controls, that the instituting of a control process would be feasible, and that the total control process costs would be within the acceptable range.

Timing is one of the bases for differentiating control systems. Some major control types are based on timing. These include feed forward controls, concurrent controls, and feedback controls. These are terms which are unfamiliar to many students and special note needs to be made in reviewing this material. A variety of these types of control is frequently used in multiple control systems and usually involve non- cybernetic. Cybernetic controls involve little, if any, human discretion as part of the system. Rather, it is a self-regulating system that, once put into operation, can automatically monitor the situation and take corrective action when necessary. Noncybernetic systems, on the other hand rely on human discretion as a basic part of its process.

In addition to deciding the types of controls to use, managers also have the options regarding the mechanisms to be used to implement controls. The three basic approaches are bureaucratic, clan, and market. Bureaucratic controls rely on regulation through rules, policies, supervision, budgets, schedules, reward systems, and other administrative mechanisms aimed at ensuring acceptable behavior and performance Clan controls rely on the values, beliefs, traditions, corporate culture, shared norms, and informal relationships to regulate behavior and to facilitate the reaching of organizational goals. The market controls have a somewhat more limited application in organizations than do bureaucratic or clan controls; all three approaches are likely to be used to some extent. Market controls rely on market mechanisms to regulate prices for certain goods and services used by the organization.

There are some potential dysfunctional aspects of control systems the manager must consider. Behavioral displacement, game playing, operating delays, and negative attitudes are some of these. To decrease the likelihood of the effects, managers need to avoid engaging in either over-control or under-control. To be effective, control systems should be future-oriented, multidimensional, cost-effective, accurate, realistic, timely monitor able, acceptable to organization members, and flexible.

Control as a management process

A. **Controlling,** one of the four major functions of POLCA management, is the process of regulating organizational activities so that actual performance conforms to expected organizational standards and goals.
   1. Controlling is largely geared to ensuring that the behavior of individuals in the organization contributes to reaching organizational goals.
   2. Controls encourage wanted behaviors and discourage unwanted behaviors.

B. A **control system** is a set of mechanisms that are designed to increase the probability of meeting organizational standards and goals.

C. Controls can play five important roles in organizations.
   1. Control systems enable managers to cope with uncertainty by monitoring the specific activities and reacting quickly to significant changes in the environment.
   2. Controls help managers detect undesirable irregularities, such as product defects, cost overruns, or rising personnel turnover.
   3. Controls alert managers to possible opportunities by highlighting situations in which things are going better than expected.
   4. Controls enable managers to handle complex situations by enhancing coordination within large organizations.
   5. Controls can decentralize authority by enabling managers to encourage decision making at lower levels in the organization while still remaining in control.

D. Control responsibilities differ according to managerial level.
   1. **Strategic control** involves monitoring critical environmental factors that could affect the viability of strategic plans, assessing the effects of organizational strategic actions, and ensuring that strategic plans are implemented as intended.
      a. Strategic control is typically the domain of top-level managers who must insure core competencies are developed and maintained.
      b. Long time frames are involved, although shorter time frames may be appropriate in turbulent environments.
   2. **Tactical control** focuses on assessing the implementation of tactical plans at departmental levels, monitoring associated periodic results, and taking corrective action as necessary.
      a. Tactical control is primarily under the direction of middle managers, but top-level managers may at times get involved.
      b. Time frames are periodic, involving weekly or monthly reporting cycles.
      c. Tactical control involves department-level objectives programs, and budgets.
   3. **Operational control** involves overseeing the implementation of operating plans, monitoring day-to-day results, and taking corrective action when required.
      a. Operational control is the responsibility of lower-level managers.
      b. Control is a day-to-day process.
      c. The concern is with schedules, budgets, rules, and specific outputs of individuals.

4. For controls and three levels to be effective they must operate in concert with one another.

The control process

A. The basic process used in controlling has several major steps.
   1. Determine areas to control.
      a. It is impractical, if not impossible, to control every aspect of an organization's activities.
      b. Major controls are based on the organizational goals and objectives developed during the planning process.
   2. Develop standards spelling out specific criteria for evaluating performance and related employee behaviors.
      a. Standards are often incorporated into the objectives set in the planning process.
      b. Standards serve three main purposes related to employee behavior.
         1) Standards help employee understand what is expected and how their work will be evaluated.
         2) Standards provide a basis for detecting job difficulties that are related to personal limitations of organization members.
         3) Standards help reduce the potential negative effects of **goal incongruence,** a condition in which there are major incompatibilities between the goals of an organization member and those of the organization.
   3. Make a decision about how and how often to measure performance related to a given standard.
      a. MBO is a popular technique for coordinating the measurement of performance throughout an organization.
      b. The means of measuring performance depends upon the performance standards that have been set, as well as data, such as units produced, quality of output, or profits.
      c. Most organizations use combinations of both quantitative and qualitative performance measures.
      d. The period of measurement usually depends upon
         1) The importance of the goal to the organization
         2) How quickly the situation is likely to change
         3) The difficulty and expense of rectifying a problem if one were to occur
   4. Compare performance against standards.
      a. Reports that summarize planned versus actual results are often developed.
      b. **Management by exception** is a control principle which suggests that managers should be informed of a situation only if control data show a significant deviation from standards.
      c. Mangers may compare performance and standards through personal observation.
      d. The 360-degree feedback system described in chapter 10 is being used by a number of organizations as an evaluation approach.
   5. Recognize above-standard performance both to give precognition to top performing employees and also to aid improving performance on regular bases.
   6. Assess the reason why standards are not met, and take corrective action.
   7. Adjust standards and measures as necessary.

a. Standards and measures need to be checked for relevance.
b. Managers must decide whether the cost of meeting certain standards is worth the resources consumed.
c. Exceeding a standard may signal opportunities, the potential to raise standards, and/or the need for possible adjustments in organizational plans.

B. Managers can take a number of approaches to deciding what to control.

1. **Resource dependence** is an approach based on the view that managers need to consider controls mainly in areas in which they depend on others for resources consider control mainly in areas in which they depend on others for resources necessary to reach organizational goals.
   a. **Strategic control points** are performance areas chosen for control because these are particularly important in meeting organizational goals.
   b. Strategic control points meet four conditions.
      1) Dependence on a resource is high because the resource is important and limited in availability.
      2) The probability that the expected resource flow will be unacceptable is high because of anticipated problems with quantity, quality, or timeliness.
      3) Instituting a control system is feasible.
      4) The cost of instituting the control system is acceptable.
2. Mangers need to develop an alternative to controls if they are needed, but cannot be instituted due to problems of feasibility or cost.
   a. The dependence relationship can be changed so that controls are unnecessary, e.g., lining up several suppliers.
   b. The nature of the dependence relationship can be changed so that a control system is feasible and/or cost-effective, e.g., job simplification or vertical integration.
   c. Organizational goals can be changed so that the resources in question are no longer necessary.

REVISITING CONTROL PROCESS

Let us take the **control process** as the three-step process of measuring actual performance, comparing it against a standard, and taking managerial action to correct deviations or inadequate standards.

A. Measuring.
Measuring is the first step in the control process.
1. *How we measure* is done through four common sources of information that managers use. Each of these sources has its own advantages and drawbacks.
a. Personal observation
b. Statistical reports
c. Oral reports
d. Written reports
2. *What we measure* is probably more critical than the how. Both objective and subjective measures are used.
B. Comparing is the next step in the control process.
1. It determines the degree of variation between *actual* performance and the standard.
2. It's critical to determine the **range of variation**, which are the acceptable parameters of variance between actual performance and the standard.
C. Taking managerial action is the final step in the control process. Although the manager

might decide to "do nothing," two other alternatives are possible.

1. *Correct actual performance.* Once the manager has decided to correct actual performance, he or she has another decision to make.
   a. Take **immediate corrective action**, which is correcting an activity at once in order to get performance back on track.
   b. Take **basic corrective action**, which is determining how and why performance has deviated and correcting the source of deviations.
   c. The action taken will depend on the cost/benefit of doing so.
2. *Revise the standard.* If the standard was set too high or too low, a manager may decide to revise it.

D. Summary of Managerial Decisions.The control process is a continuous flow between measuring, comparing, and managerial action.

Designing Control Systems

Since control is the process of monitoring activities to ensure they are being accomplished as planned and of correcting any significant deviations. There are three different approaches to designing organizational control systems.

A. **Market control** is an approach that emphasizes the use of external market mechanisms to establish the standards used in the control system.

B. **Bureaucratic control** is an approach that emphasizes organizational authority and relies on administrative rules, regulations, procedures, policies, standardization of activities, well-defined job descriptions, and other administrative mechanisms to ensure that employees exhibit appropriate behaviors and meet performance standards.

1. Bureaucratic control has advantages.
   a. Unlike market control, bureaucratic control does not require that all requirements be specified in advance.
   b. Bureaucratic control is useful for keeping recurring, relatively predictable activities running smoothly.
   c. Bureaucratic control focuses on doing the job and aids extrinsic reward systems.
2. Bureaucratic control has disadvantages.
   a. Innovation is not encouraged.
   b. Needed changes may be inhibited.
   c. Employees tend to comply with regulations rather than committing to a course of action.

C. **Market control** relies on market mechanisms to regulate prices for certain clearly specified goods and services needed by an organization.

1. Two conditions must hold if market control is to be used.
   a. There must be a reasonable level of competition in the goods or service area.
   b. It must be possible to specify requirements clearly.
2. Market controls may be used to regulate internal operations as well as external relations.
   a. Profit centers, e.g., photocopying centers, are set up and charge other departments for their services.
   b. The intra-organizational use of market controls is limited because the conditions of competitiveness and specificity or requirements may not hold.

The use of market controls is increasing. For example, **outsourcing,** using outside vendors to perform services normally carried out within the organization, is becoming a more common practice.

D. **Clan control** is an approach to designing control systems in which employee behaviors are regulated by the shared values, norms, traditions, rituals, beliefs, and other aspects of the organization's culture.

Clan control relies on values, beliefs, traditions, corporate culture, share norms and information relationships to regulate employee behaviors and facilitate the reaching of organizational goals.

1. Clan control differs from bureaucratic control.
   a. Internal motivation is emphasized.
   b. Duties are flexible and tasks are broadly defined.
   c. Influence is based on relevant information and expertise, rather than upon position in the hierarchy.
2. A primary advantage of clan control is that it is conducive to innovation.