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Business Management
BMA 204

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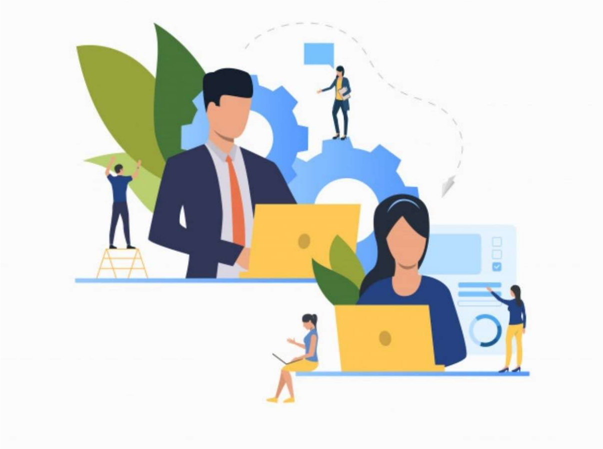
Part VI
Organizational Controlling



Introduction to controlling

- Organizational Controlling is the process of establishing and maintaining authority over and throughout an enterprise.
- A system that helps managers to evaluate and store a significant amount of data and Information is highly important for an effective control process in an of organization especially larger business.
- Manager should be able to evaluate whether the business as well as employees are operating as expected a take corrective action adequately to control effectively.
- Organizational control involves using strategy, tactics, and operational oversight to monitor and improve company processes.
- Controlling monitors the differences between actual and standard outcomes, identifies reasons for differences and assists in taking corrective managerial action for better performance.
- It also verifies whether the business runs according to the plans and whether the business happenings/instruction/principles are on the same track to meet the objectives.
- Most importantly, controlling guarantees that the organizational resources are utilized effectively and efficiently to achieve the planned goals.

Definitions

"Controlling is a systematic exercise which is called as a process of checking actual performance against the standards or plans with a view to ensure adequate progress and also recording such experience as is gained as a contribution to possible future needs.“ - Brench

"Just as a navigator continually takes reading to ensure whether he is relative to a planned action, so should a business manager continually take reading to assure himself that his enterprise is on right course.” – Donnell

Therefore,

Control is the regulation of organizational activities so that some targeted element of performance remains within an acceptable limit. Without this regulation, organization has no indication of how well they perform in relation to their goals.

Characteristics of Controlling

- Controlling is an essential function of every manager
- Controlling is a fundamental management function
- Controlling is a continuous activity -
- Controlling is related to results
- Controlling is forward looking
- Controlling is both the beginning and the end of the process of management
- Controlling is related with planning
- Controlling is a dynamic process

The importance of Controlling

- Helps in achieving organizational goals
- Judging accuracy of standards
- Making efficient use of resources
- Improving employee motivation
- Ensures order and discipline
- Facilitate coordination in action
- Controlling helps in minimizing the errors:
- Controlling helps in improving the performance of the employees
  - **Self-appraisal report**: Employees are asked to prepare a reports of their performance and explains whether their performance is in accordance with plan or not (Specify their achievements)
  - **Performance appraisal report by supervisors**: The superiors continuously monitor and observe the employees when they are performing the job and comparison between the standard and actual performance is done (base for giving promotions, increments, bonus etc. to the employees)

Limitations of Controlling

- **Difficulty in setting quantitative standards**

Control system loses its effectiveness when standard of performance cannot be defined in quantitative terms and it is very difficult to set quantitative standard for human behavior, efficient level, job satisfaction, employee's morale, etc. In such cases judgment depends upon the discretion of manager.

- **No control on external factors**

An enterprise cannot control the external factors such as government policy, technological changes, change in fashion, change in competitor's policy, etc.

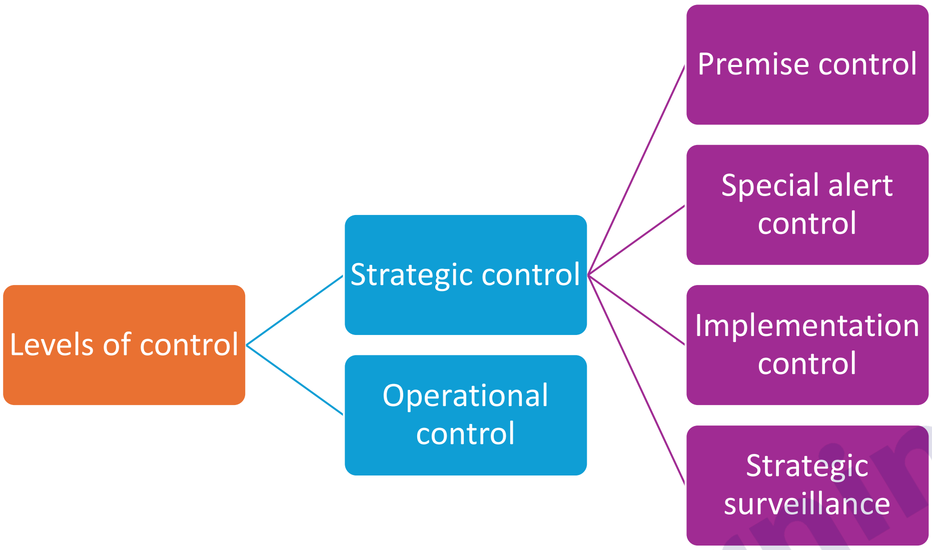
- **Resistance from employees**

Employees often resist control and as a result effectiveness of control reduces. Employees feel control reduces or curtails their freedom. Employees may resist and go against the use of cam-eras, to observe them minutely.

- **Costly affair**

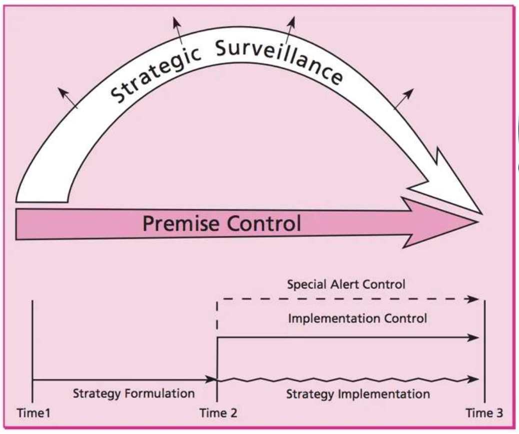
Control is an expensive process it involves lot of time and effort as sufficient attention has to be paid to observe the performance of the employees. To install an expensive control system organization, have to spend large amount. The benefits must be more than the cost involved then only controlling will be effective otherwise it will lead to inefficiency.

Levels of Controlling



Strategic Control

- Assess to what extent the strategies of the organization are successful in meeting organizational goals.
- It starts with following the implemented strategy and then detects on areas with issues or potential issues implying the inappropriateness of the strategy and helps to make necessary amendments.
- Allows the company to take a step back and view a bigger picture and assure all the pieces of the picture are properly associated.
- Searches whether the company is moving in the right direction, or whether assumptions of management about major trends and changes in the company's environment are correct



Premise Control

Premises or predictions are based for every single strategy.

It is intended to monitor systematically and persistently whether the premises on which a strategy is based are yet effective and usable.

If the company discovers that a vital premise is not valid anymore, the company will have to change the strategy.

It always best to identify any invalid premises sooner so that the respective strategy can be amended to mirror realism.

Example: A Retail Clothing Chain

The clothing chain's strategy is based on the assumption that online shopping will continue to grow rapidly, leading to increased online sales. The company plans to invest heavily in its e-commerce platform and reduce the number of physical stores.

Premise Control:

Monitoring: The company regularly tracks online shopping trends, customer preferences, and e-commerce performance.

Validation: If new data shows that online shopping growth is slowing down or that consumers are returning to physical stores more than expected, the company reassesses its strategy.

Adaptation: If it turns out that online growth isn't as strong as anticipated, the company might decide to keep more physical stores open and adjust its investment in the e-commerce platform accordingly.

Premise control helps ensure that the company's strategy remains relevant and effective by regularly checking the accuracy of the assumptions upon which the strategy was built.

Special Alert Control

The demanding and fast reconsideration of a company's strategy as the happening of an instantaneous, unexpected event.

Example:

Purchase of your rival company by an outsider is an excellent Such a happening will require an instant and powerful reconsideration of the company strategy.

Therefore, management can arrange crisis teams to manage those crises to avoid the unexpected losses.

Implementation Control

This means inception of a series of steps, investments, activities and actions that happen over a long period.

A manager would assemble assets, undertake exceptional projects and recruit or reallocate staff.

Implementation control is the kind of strategic control that should be carried out as happenings unfold.

1. Strategic thrusts - deliver evidence that determines whether the overall strategy is shaping up as scheduled.
2. Milestone reviews - the development of the strategy is monitored at numerous milestones or intervals.

Strategic Surveillance

It is intended to detect a widespread series of happenings inside and outside to your business that would impact the roadway of the strategy.

It is grounded on the impression that important things can be uncovered by unforeseen information by observing numerous information sources like trade magazines, conversations, observations, journals and trade conferences

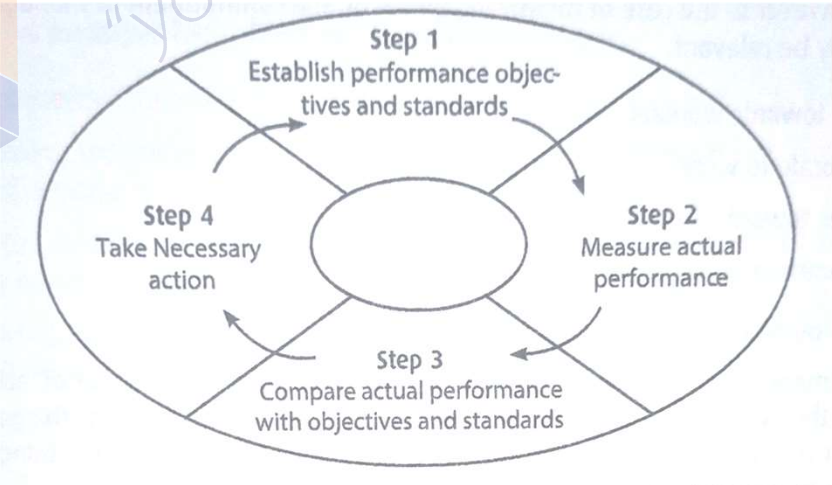
Operational Control

- Operational control concerns with executing the strategy.
- Operational control operate within the structure set by the strategy
- These standards, objectives and goals are set for key subsystems within the business, such as business projects, units, products, responsibility centers and functions.
- Usual operational measurements are net profit, return on investment, product quality and cost.
- These measurements are fundamentally summations of finger-grained control measures
- When operational control results in corrective remedial action that requires strategic changes provides implication to strategic controls.

Difference between Strategic control and operational control

Strategic control	Operational control
Necessitates data from more sources	Requires data from very few sources
Necessitates more data from external sources	Necessitates data from internal operating factors
Strategic control is more concerned with measuring the accuracy of the decision premise.	Operating decisions tend to be concerned with the quantitative value of certain outcomes
The time for strategic control is longer	The time for operating control is relatively short
Strategic control models are less precise	Operational control models, which are generally very precise in the narrow domain they apply
Strategic control relies on variable reporting interval	The typical operating measurement is concerned with operations over some period: pieces per week, profit per quarter, and the like
It is future oriented	Operational control decisions in which control data give rise to immediate decisions that have Immediate impacts
The key activity in strategic control analysis is alternative generation	The key analysis step in operations is to discover exactly what happened

Controlling Process



1. Establish standards to measure performance

Standards – plans or the targets which must be achieved during business functions – criterions for judging the performance

Standards	Measurable or tangible standards	Can be measured, in form of cost, output, expenditure, time, profit
	Non- measurable or intangible standards	Cannot be measured monetarily, example: performance of a manger, deviation of workers, attitudes of employees towards management

2. Measure actual performance

- Organisations prepare formal reports of performance measurements that managers review regularly (standards related to the standards set in the first step of the control process)
- To find out the deviations actual performance should be measured
- Use weekly, monthly, quarterly, yearly reports

Example: sales growth is a target; organization gather and report sales data. To measure behaviour and commitment of managers following indicators may be relevant.

- Attitude towards workers
- Their morale to work
- Attitudes towards the physical environment
- Their communication with the superiors

3. Compare performance with the standards

- Compares actual activities to performance standards.
- Deviation can be defined as the gap between actual performance and the planned targets
- The manager has to find out two things
  - Extent of deviation
  - Cause of deviation

Extent of deviation

- The manager has to find out whether the deviation is positive or negative or whether the actual performance is in conformity with the planned performance.
- The managers have to exercise control by exception.
- He has to find out those deviations which are critical and important for the business.
  - Minor deviations – can be ignored
  - Major deviations - Should be looked upon seriously (Replacement of machinery, appointment of workers, quality of raw material, rate of profits, etc.)
- It is said, "If a manager controls everything, he ends up controlling nothing."

Example:

- Minor Deviation - 5-10% increase in stationery charges.
- Major Deviation - Example: Continuous decrease in monthly production.

Identifying Causes of Deviation

- Erroneous planning
- Weak coordination
- Defective implementation of plans
- Ineffective supervision and communication

Assessment Methods

- Managers utilize computerized reports or on-site evaluations.
- Comparison of actual performance against established standards.
- Performance reports display:
  - Performance standards for the reporting period
  - Actual performance for the same period
  - Calculation of variance (difference between actual amounts and standards)

4. Take corrective actions

Identifying Changes - Managers assess necessary changes when performance deviates from standards.
Empowerment - Workers and managers often evaluate their own work.
Corrective Action Steps:

1. **Identify Causes:** Determine reasons for deviations.
2. **Take Corrective Action:**
   - Follow established policies or rely on employee initiative.
   - Detect errors and implement remedial measures.

Alternatives for Correction:

- Address existing deviations.
- If performance remains non-compliant after corrections, revise targets.

- **Controlling Process:** This step is crucial for making adjustments.
- **Ongoing Review:** These steps should be repeated periodically until organizational goals are met.

Relationship between Planning and Controlling

Planning and controlling are two separate functions of management, yet closely related.

Without the basis of planning, controlling activities becomes baseless and without controlling, planning becomes a meaningless exercise.

in absence of controlling, no purpose can be served.

According to Billy Goetz,

- Planning precedes controlling and controlling succeeds planning.
- Planning and controlling are inseparable functions of management.
- Activities are put on rails by planning, and they are kept at the right place through controlling.
- Planning and controlling reinforce each other. Each drives the other function of management.
- The process of planning and controlling works on Systems Approach which is as follows:

This can be further analyze based on following aspects

1. **Meaning**

- **Planning** is the foundational function of any enterprise, where decisions are made about what to do, how to do it, when, and by whom. Planning bridges the gap between the current state and future goals.
- **Controlling** is the function ensures that activities align with the established plans. It involves monitoring performance, identifying deviations, and taking corrective actions to keep operations on track.

2.Planning and controlling are interconnected

- **Dependence of Controlling on Planning:** Controlling compares actual performance against planned performance. Without a plan, there is no benchmark for evaluation.
- **Dependence of Planning on Controlling:** Effective plans require implementation, which is ensured through controlling. The controlling function monitors adherence to plans, helping to refine future planning efforts.

Example: If workers produce 800 units, the manager can assess adequacy only if there is a standard set by planning (e.g., a target of 1,000 units). Controlling ensures that performance aligns with this target and drives improvement.

3. Backward and Forward Looking

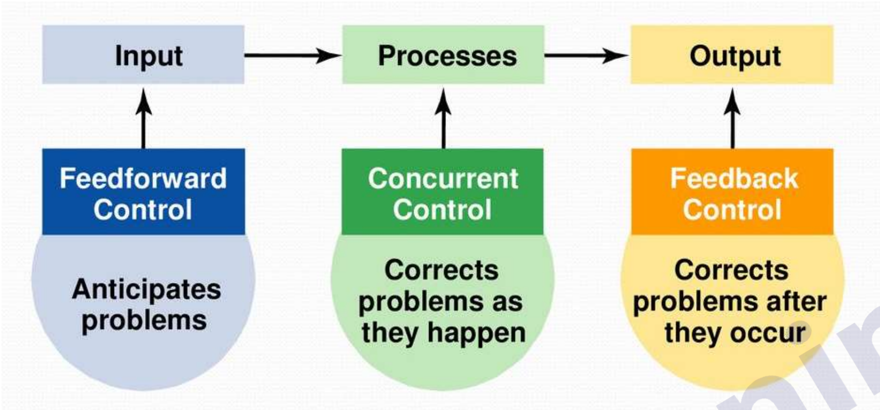
- **Backward Looking:** Both functions analyze past performance. Controlling evaluates deviations from standards, while planning is informed by past experiences and feedback.
- **Forward Looking:** Planning prepares for future goals, and controlling also anticipates future issues by identifying reasons for deviations and suggesting preventive measures

Classification of controlling and techniques

- Level of proactivity
- Outcome versus behavioural
- Financial and non-financial

Types of Controlling According to Level of Proactivity

Proactivity involves addressing issues before they arise, leading to three types of controlling based on their proactivity levels: feedforward, feedback, and concurrent control.



- **Feedforward Control:**
  - Focuses on anticipating problems and taking preventive measures.
  - Involves gathering data to predict outcomes and make adjustments before issues occur.
  - Examples include conducting due diligence on investments and performing preventive maintenance on equipment.
- **Feedback Control:**
  - Uses information about past or present performance to influence future actions.
  - Involves collecting data after actions have been completed and assessing it for improvements.
  - This method is reactive, relying on past performance to guide future activities.
  - Feedback serves as motivation and a basis for discussions on improving processes.
- **Concurrent Control:**
  - Engages in real-time monitoring of processes as they occur.
  - Allows for immediate observation and problem-solving during project execution.
  - While it helps prevent issues from worsening, it is not as proactive as feedforward control.
  - An analogy is adjusting the water temperature while bathing to ensure comfort.

Outcome and Behavioral Controls

Controls in management can be categorized based on what is measured: outcomes or behaviors. This distinction leads to two main types of controls: **outcome controls** and **behavioral controls**.

- **Outcome Controls:**
    - Focus on measurable results of business performance.
    - Examples include metrics like return on assets (ROA) and return on investment (ROI).
    - Effective when there is minimal external interference between management decisions and performance outcomes.
    - Suitable for situations where a few key measurements can provide a clear picture of business health.
- **Behavioral Controls:**
    - Assess the decision-making processes of managers and employees rather than just the results.
    - Often involve a broader range of criteria for performance evaluation, such as those found in the Balanced Scorecard.
    - Appropriate in environments with many external and internal factors affecting the link between decisions and outcomes.
    - Useful for coordinating resources and capabilities across different business units and encouraging desired behaviors through linked rewards.

Financial and Non-Financial Controls

- **Financial Controls:**
    - Focus on managing costs and expenses through budgeting.
    - Companies determine which financial aspects (e.g., assets, sales, profitability) are most critical.
    - Budgets are used to estimate these financial targets, which are then compared to actual performance.
    - Key indicators include profitability metrics and sales levels, serving as relevant strategic controls.
- **Non-Financial Controls:**
    - Increasingly important for overall business performance.
    - Assess factors like employee satisfaction, customer loyalty, and referrals.
    - Unlike financial controls, non-financial controls do not yield immediate financial results but contribute to long-term performance.
    - They provide early insights into organizational progress before financial outcomes are measurable.

Factors to Consider in Controlling

1. **Planned Objectives:** The controlling process is closely linked to planning. Effective controlling requires clear objectives established during planning, as control standards are derived from these objectives.
2. **Ability to Absorb Complexity:** Organizations today face complex activities and systems. The controlling process must be designed to address both internal and external complexities effectively.
3. **Compatibility with Organization Size and Structure:** Controlling mechanisms should be tailored to fit the organization's size and operational scope. Smaller organizations may require simpler controls, while larger, diversified firms need more complex systems.
4. **Level of Motivation:** A control system should not only correct behavior but also motivate employees to adhere to accepted standards. Successful systems incorporate features that encourage compliance and engagement.
5. **Expectations of Management:** The control system must meet management's expectations and requirements to be considered successful and effective.
6. **Cost Effectiveness:** The costs associated with implementing and maintaining the control system should be significantly lower than the benefits it provides, ensuring a positive return on investment.

Behavioral Implications in controlling

Behavioral Implications of controlling are usually manifested in the following phenomena:

1. There is **spoiling of human relations in the organization** - because people resist control for any reasons whatsoever.
2. **Suppressing initiative and creativity** - this leads to underutilization of human potential and also leads to poor motivation and morale.
3. **Creating of a feeling of fear in subordinates** - because of imposition of fines, penalties etc. for non-compliance with standards. This phenomenon makes people internally aggressive and frustrated and gives an impetus to the emergence of powerful informal groups.
4. **Minimum performance by people-** this is the outcome of negative controls. People just do minimum work to conform to control standards and usually not try to exceed standards


Thank You!