CONTROLLING

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Controlling

- The process of evaluating and regulating ongoing activities to ensure that goals are achieved.
The Nature of Control

The regulation of organizational activities so that some targeted element of performance remains within acceptable limits.

- Provides organizations with indications of how well they are performing in relation to their goals.
- Provides a mechanism for adjusting performance to keep organizations moving in the right direction.
Why To Control?

Managing people performance
Coping with uncertainty
Detecting Irregularities
Identifying opportunities
Handling complex situations
Delegation
Minimizing Costs
Basis for planning
The Planning—Controlling Link
AREAS OF CONTROL

• **Physical resources**—inventory management, quality control, and equipment control.

• **Human resources**—selection and placement, training and development, performance appraisal, and compensation.

• **Information resources**—sales and marketing forecasts, environmental analysis, public relations, production scheduling, and economic forecasting.

• **Financial resources**—managing capital funds and cash flow, collection and payment of debts.
Levels of Control

- Levels of Control

- Strategic control

- Tactical control

- Operations control

Figure 14.2
Steps in the Control Process

1. Establish standards
2. Measure performance
3. Compare performance against standards
4. Determine need for corrective action

- Maintain the status quo
- Correct the deviation
- Change standards
TYPES OF CONTROL

Feedforward Control
The active anticipation and prevention of problems, rather than passive reaction.

Concurrent Control
Monitoring and adjusting ongoing activities and processes.

Feedback Control
Checking a completed activity and learning from mistakes.
TYPES OF CONTROL

Feedforward control
- Monitoring inputs
- Anticipating and preventing problems

Concurrent control
- Monitoring processes
- Adjusting ongoing activities

Feedback control
- Monitoring products
- Learning from past mistakes

Inputs → Productive processes and activities → Outputs
Characteristics of Effective Control

- Integration with Planning
  - the more control is linked to planning, the more effective the control system.
- Flexibility
  - the control system must be flexible enough to accommodate change.
- Accuracy
  - Inaccurate information results in bad decision making and inappropriate managerial actions.
- Timeliness
  - A control system should provide information as often as necessary.
- Objectivity
  - A control system must be free from bias and distortion.
Levels of Control

Figure 14.2

- Financial control
- Budgetary and Quality control
- Inventory control
Financial Control

Financial Statements
A financial statement is a profile of some aspect of an organization’s financial circumstances.

Balance sheet
A listing of assets (current and fixed), liabilities (short- and long-term), and stockholders’ equity at a specific point in time (typically year-ending) that summarizes the financial condition of the organization.

Income statement
Summary of financial performance—revenues less
Ratio Analysis
The calculation of one or more financial ratios to assess some aspect of the organization’s financial health

Liquidity Ratio (e.g. Current Ratio – current assets/current liabilities)

Activity Ratio (e.g. Inventory Turnover Ratio – Cost of goods sold/Inventory)

Debt Management Ratio (e.g. Debt Ratio – Total Liabilities / Total Assets)

Profitability Ratio (e.g. Net Profit Margin –
Budgetary Control

Budgets may be established at any organizational level. Budgets are typically for one year or less. Budgets may be expressed in financial terms, units of output, or other quantifiable factors.
Budgetary Control (cont’d)

Budgets serve four purposes:
Help managers coordinate resources and projects.
Help define the established standards for control.
Provide guidelines about the organization’s resources and expectations.
Enable the organization to evaluate the
Responsibility Centers

- Standard Cost Centers
- Production Unit
- Discretionary Expense Centers
- R&D
- Revenue Centers
- Sales Department
- Profit Centers
- Business Unit
- Investment Centers
- Project
Strengths and Weaknesses of Budgeting

Strengths
Budgets facilitate effective operational controls.
Budgets facilitate coordination and communication between departments.
Budgets establish records of organizational performance, which can enhance planning.

Weaknesses
Budgets can hamper operations if applied too rigidly.
Budgets can be time consuming to develop.
Budgets can limit innovation and change.
Structural Control

Bureaucratic Control
A form of organizational control characterized by formal and mechanistic structural arrangements.

Clan Control
An approach to organizational control characterized by informal and organic structural arrangements.