

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

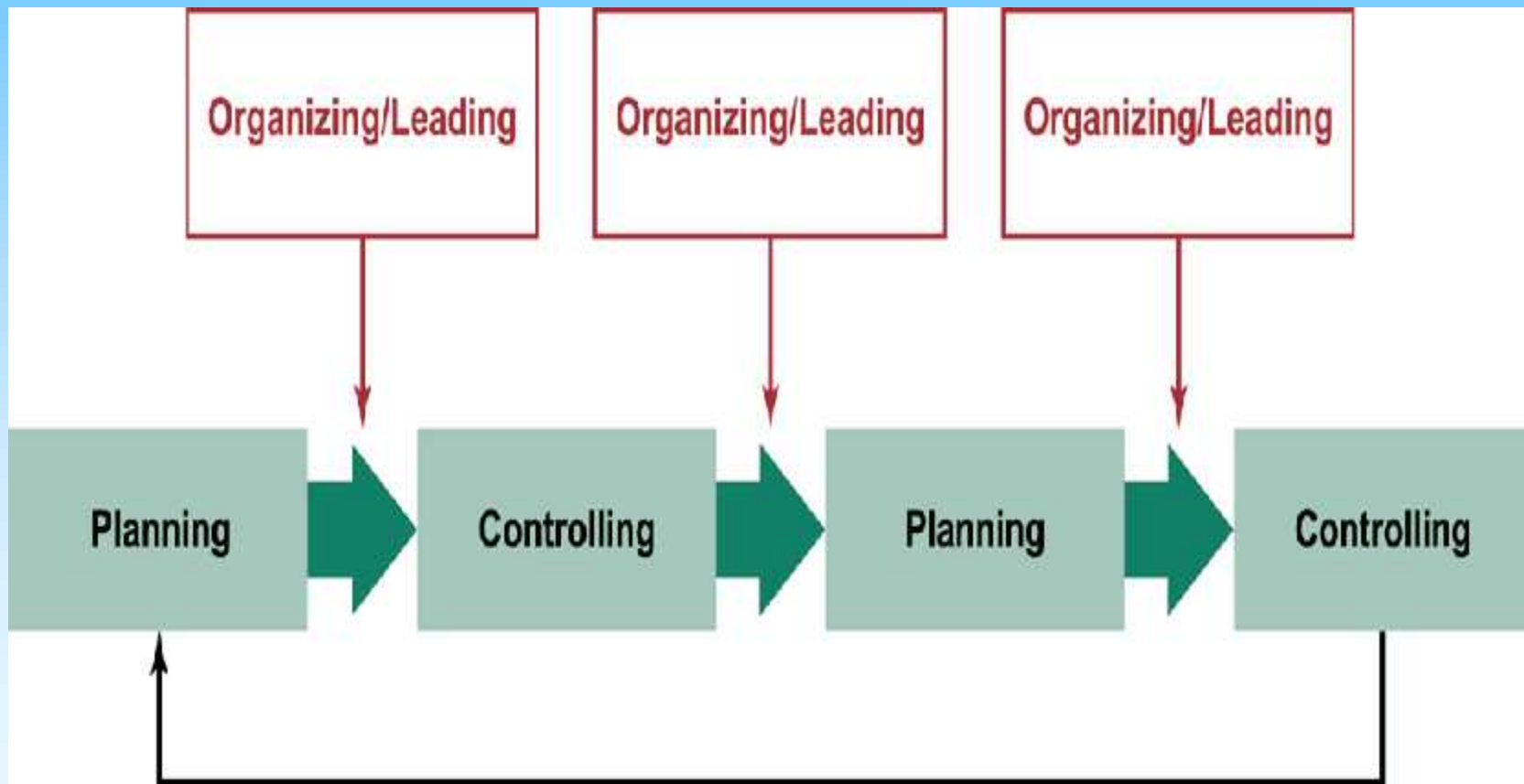
Handling complex situations

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.

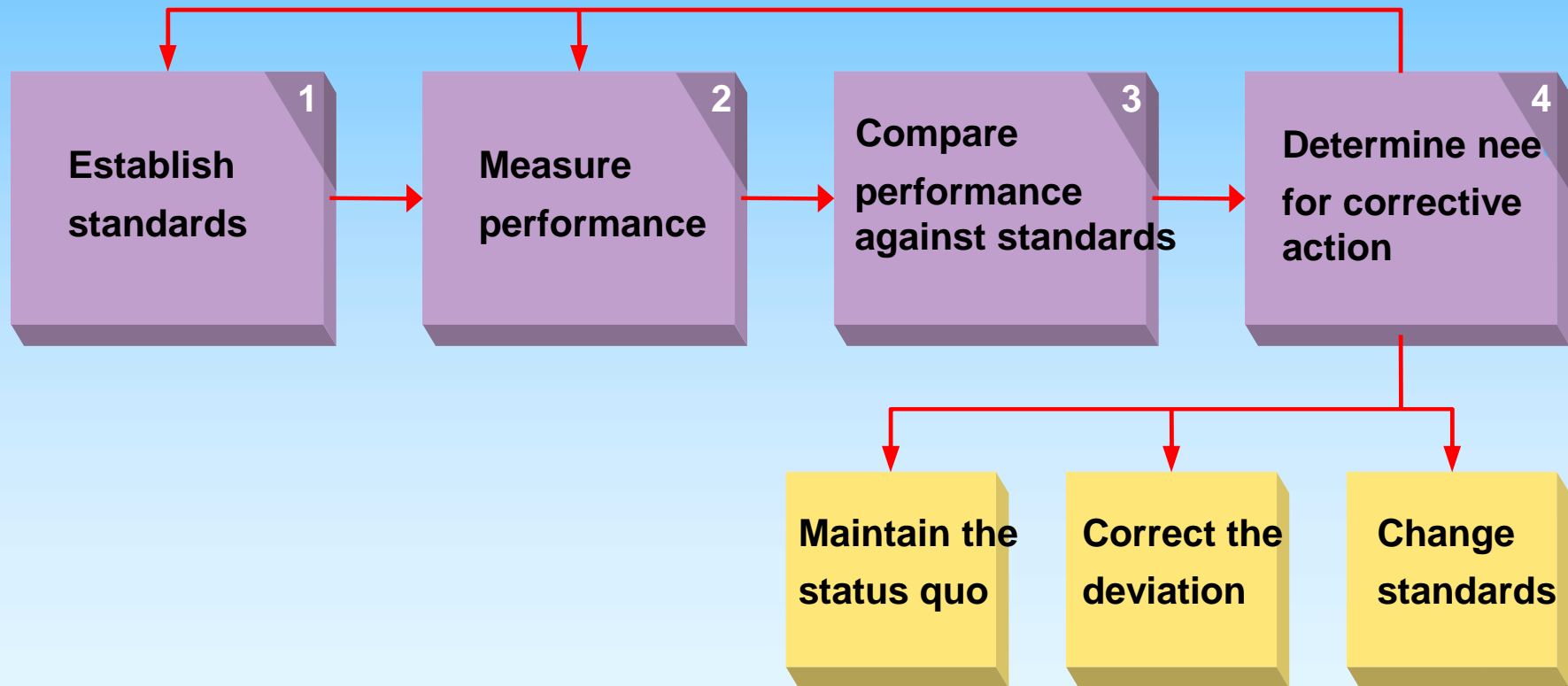
Levels of Control

- Levels of Control



Figure 14.2

Steps in the Control Process



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

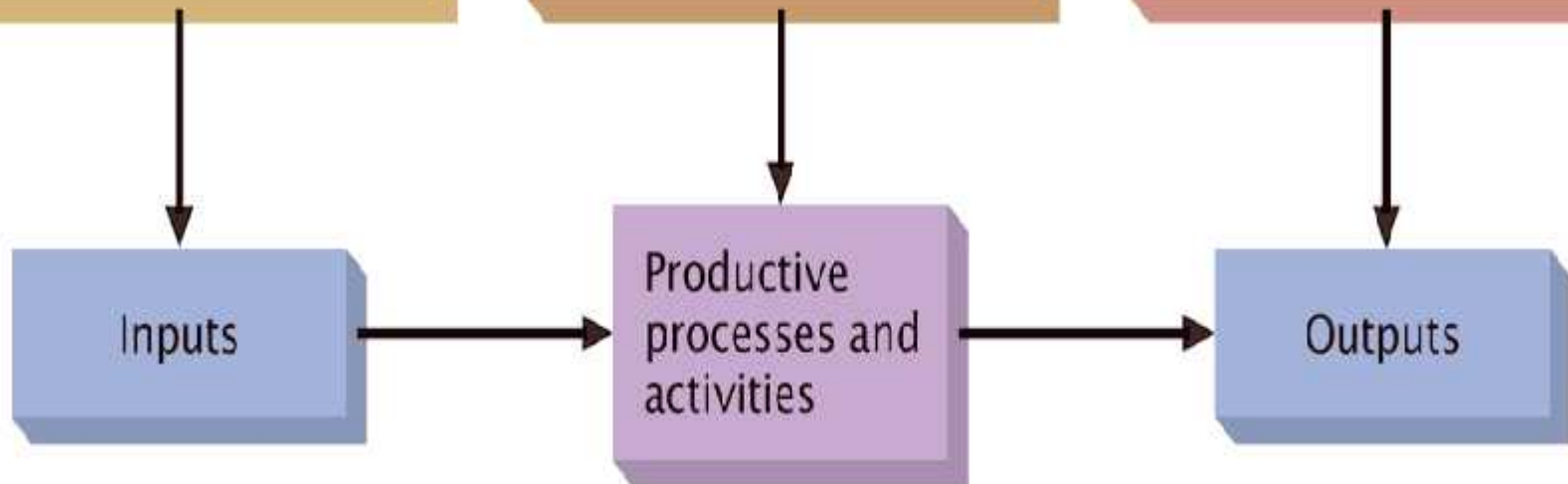
- Monitoring inputs
- Anticipating and preventing problems

Concurrent control

- Monitoring processes
- Adjusting ongoing activities

Feedback control

- Monitoring products
- Learning from past mistakes



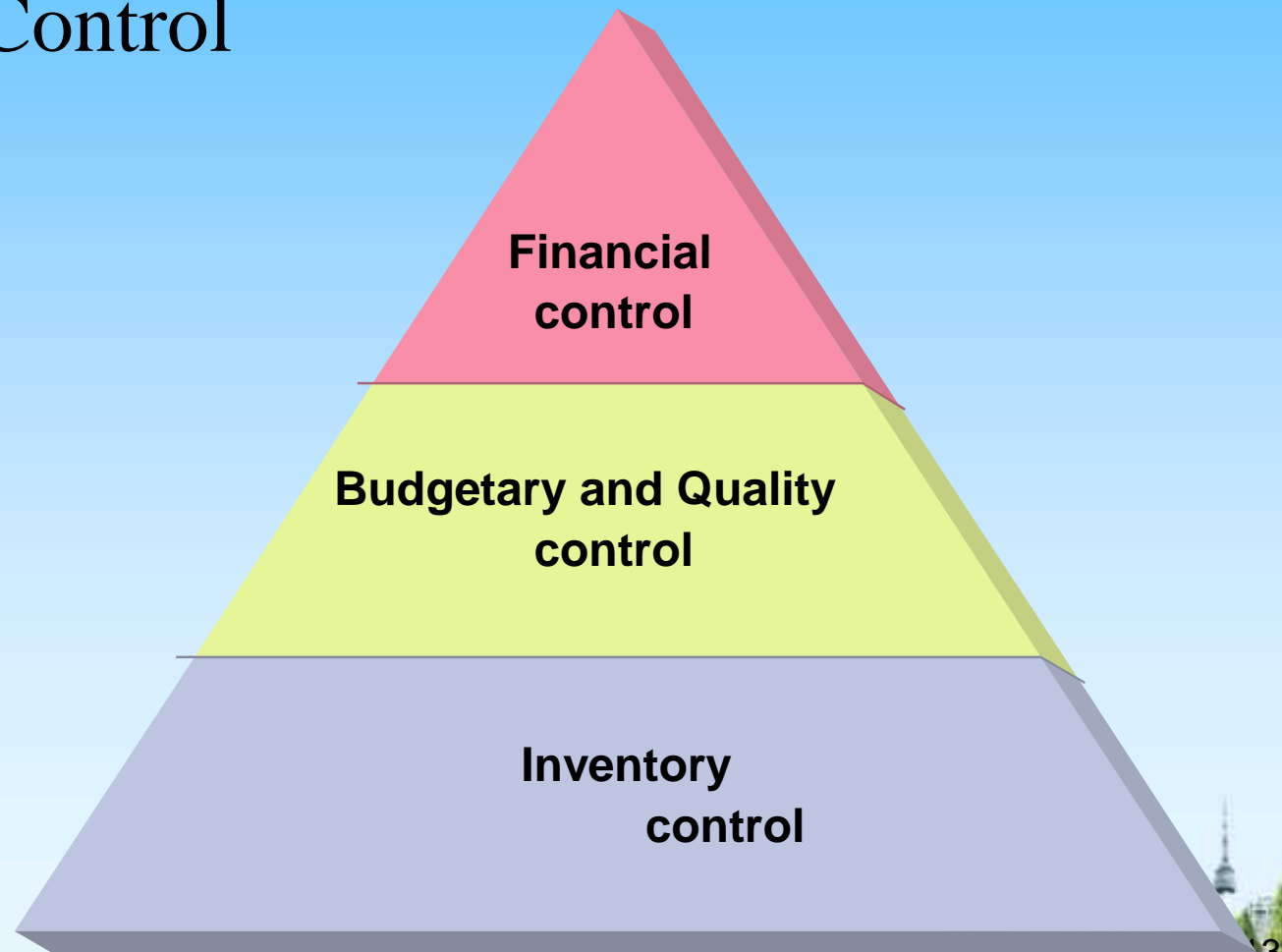
Characteristics of Effective Control

- 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

CONTROL TECHNIQUES

Levels of Control

Levels of 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

Financial Control (cont'd)

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 –
 $\text{current assets} / \text{current liabilities}$)

Activity Ratio (e.g. Inventory Turnover Ratio –
 $\text{Cost of goods sold} / \text{Inventory}$)

Debt Management Ratio (e.g. Debt Ratio –
 $\text{Total Liabilities} / \text{Total Assets}$)

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.

