CONTROLLING

CHAPTER 8

nadiasasmita@uny.ac.id
Management Function

Planning

Controlling

Organizing

Leading
What is Controlling?

Process of regulating organizational activities, so that actual performance conforms to expected organizational standards and goal.

Controlling means that managers develop appropriate standards, compare ongoing performances against those standards, and take steps to ensure that corrective actions are taken where necessary.
Why is Control Important?

- Controls let managers know whether their goals and plans are on target and what future actions to take.
- Control systems provide managers with information and feedback on employee performance.
- Help minimize workplace disruptions.
LEVELS OF CONTROL

Strategic planning ➔ Strategic control

Tactical planning ➔ Tactical control

Operational planning ➔ Operational control

Top level management
Organization wide perspective
Long time frame

Middle level management
Department perspective
Periodic time frame

Lower level management
Unit/individual perspective
Short time frame
Levels of Control

- **Strategic control**
  - involves monitoring critical environmental factors to ensure that strategic plans are implemented as intended, assessing the effects of organizational strategic actions, and adjusting such plans when necessary.

- **Tactical control**
  - focuses on assessing the implementation of tactical plans at department levels, monitoring associated periodic results, and taking corrective action as necessary.
Tactical control

Marketing strategy: develop business package targeting travel agent including e-commerce

Other Tactics:
- Building a list of local travel agents
- Preparing a biz incentive scheme
- Outlining how they can use hotel website to make reservations and keep up-to-date
- Personally visit the agents to follow up
- Monitoring the response to determine if the sales target is met.
Levels of Control

- **Operational control**
  - involves overseeing the implementation of operating plans, monitoring day-to-day results, and taking corrective action when required

  e.g:
  ✓ Are product and service output high quality and delivered on time?
  ✓ Are inventories of raw material, goods-in-process and finished products being purchased and produced in the desired quantity?
  ✓ Are the actual production cost in line with cost estimates?
THE CONTROL PROCESS

Steps in the Control Process:

1. Determine Areas to Control
2. Establish Standards
3. Measure Performance
4. Compare Performance against Standards
   - Standards Met or Exceeded
   - Standards not Met
     - Take Corrective Action as Necessary
       - Recognize Performance
         - Adjust Standards and Measures as Necessary
**Establishment of Standards**

- Plans can be considered as the criteria or the standards against which we compare the actual performance in order to figure out the differences.

- Standards could be set on the basis of:
  - Profitability standards: How much company would like to make as profit over a given period of time.
  - Market position standards: Standards indicate the share of total sales in the market.
  - Productivity standards: How much various segments should produce.
MEASUREMENT OF PERFORMANCES AND COMPARING PERFORMANCES

- Measurement of performance is an important procedure of the control process, the deviations can be detected in advance by taking appropriate actions.

- COMPARING MEASURED PERFORMANCES TO SET STANDARDS:
  - A standard is the level of activity established to serve as a model for evaluating organizational performance.
  - Performance evaluated can be for the organization as a whole or for some individuals working within the organization.

- In simple terms, standards are the evaluations that determine an organization's performance is sufficient or inadequate.
TYPES OF CONTROL

Feedforward Control
Regulates inputs to ensure that they meet standards necessary for transformation process.

Concurrent Control
Regulates ongoing activities to ensure that they conform to standards.

Feedback Control
Regulates product or service after completion to ensure final output meets organizational standards and goals.
The Balanced Scorecard

- A strategic planning and management system that is used extensively in business and industry, government and non-profit organizations worldwide to:
  - Align business activities to the vision and strategy of an organization
  - Improve internal and external communications
  - Monitor organization performance against strategic goals
How do companies measure their performance?

<table>
<thead>
<tr>
<th>Customer</th>
<th>Vision and Strategy</th>
<th>Internal Business Processes</th>
<th>Learning and Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>- To achieve our vision, how should we appear to our customers?</td>
<td>- To succeed financially, how should we appear to our shareholders?</td>
<td>- To satisfy our shareholders and customers, what business processes must we excel at?</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Vision and Strategy**

- Objectives
- Measures
- Targets
- Initiatives

**Financial**

- Objectives
- Measures
- Targets
- Initiatives

**Customer**

- Objectives
- Measures
- Targets
- Initiatives

**Learning and Growth**

- Objectives
- Measures
- Targets
- Initiatives
Balanced Scorecard Perspectives:
-How company’s measure their performance?

- **The learning and growth perspective**
  - Companies need to increase their performance align to companies vision.
  - Includes employee training and corporate cultural attitudes related to both individual and corporate self-improvement.

- **The business process perspective**
  - Refers to internal business processes.
  - Metrics based on this perspective allow managers to know how well their business is running, and whether its products and services conform to customer requirements (the organization’s mission).
  - Measure – How they manage their fixed and current asset – sale.
The customer perspective
- The importance of customer focus and customer satisfaction in any business.
- Measure – customer complain, average collection period, average payment period.

The financial perspective
- Timely and accurate funding data will always be a priority and managers will do whatever necessary to provide it.
- Companies have a good performance if they get a positive financial ratios. (ROA, NPR).
Objectives, Measures, Targets, and Initiatives

Each perspective of the Balanced Scorecard includes objectives, measures of those objectives, target values of those measures, and initiatives, defined as follows:

- **Objectives** - major objectives to be achieved, for example, profitable growth.
- **Measures** - the observable parameters that will be used to measure progress toward reaching the objective. For example, the objective of profitable growth might be measured by growth in net margin.
- **Targets** - the specific target values for the measures, for example, +2% growth in net margin.
- **Initiatives** - action programs to be initiated in order to meet the objective.

These can be organized for each perspective in a table as shown below.

<table>
<thead>
<tr>
<th></th>
<th>Objectives</th>
<th>Measures</th>
<th>Targets</th>
<th>Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Process</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Learning</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>