Chapter 3: Controlling Process

The learning objectives
When you study and understand this chapter, you will be able to:

- **Understand** the meaning (definition) of control
- **Understand** the controlling subsystem
- **Know** the main steps to be followed in order to develop an accurate and effective control
- **Distinguish** between the different types of control
- **Know** the various potential barriers that must be overcome to implement successful control
- **Know** the different methods and techniques for accomplishing an effective and efficient control
- **Understand** the relationship between the planning and controlling functions (processes)
- **Get familiar** with some areas of control

3.1 Introduction

Setting plans, establishing the structure and directing the people do not guarantee that everything in the organization is going well. We must make sure that all the work activities are going as they were determined in the plan and through the channels which have been established.

Thus, control process is very important for all types of organizations (profit or nonprofit, industrial, agricultural, commercial, or scientific, large or small, public or private.

**What is control? (Meaning and nature)**

*The function of management control is regarded as one of the most difficult tasks that focus the executive functioning in the modern business world.* Meanwhile, there are no common agreement regarding the definition of control as each researcher or writer has his/ her own definition. However, among the most common definitions are:

- **Control is making sure that something happen the way it was planned to happen.** As implied in this definition, planning and controlling are virtually inseparable functions. (Certo, 2000, p. 422).

- **Control is the task of ensuring that the activities are providing the desired results.** (Omran, 2001, p. 162).
Based on this, control involves:
1. Setting a target (criteria),
2. Measuring the actual performance, and
3. Taking the corrective actions.

Why control is important (its necessity)?
If you could be sure that every task you assigned would be perfectly executed, you really would not need to control. But things rarely go this smoothly. Most plans are executed by people, and people vary widely in their abilities, motivation, and honesty. Furthermore, plans themselves become outdated and require revision. For these reasons and more, control is an important management function.

Control applies to controlling every task - whether it was large or small - you delegate. Thus, for every task you delegate, you should establish a control mechanism, and the way of ensuring that performance is in line with plans.

3.2 Prerequisites of the Control System

Two major prerequisites must exist before any manager can devise or maintain a system of control. These prerequisites are:

3.2.1 Control Requires Plans

It is obvious that before a control technique can be used or a system devised, control must be based on plans, and that the clearer, more complete, and more integrated plans are, the more effective controls can be. It is simple as this:

There is no way that managers can determine whether their organizational unit is accomplishing what is desired and expected unless they first know what is expected.

This simple truth means several things in practice:

First: All meaningful control techniques are, in the first instance, planning techniques.

Second: It is fruitless to try to design control without first taking into account plans and how well they are made.

The relationship between planning and control can be shown in Figure 3.1.
3.2.2 Controls Require Organization Structure

Since the purpose of control is to measure activities and take action to assure that plans are being accomplished, we must also know where responsibility of an enterprise for deviating from plans and taking action to make corrections, lies. Control of activities operates through people. But we can not know where the responsibility for deviations and needs action are, unless organizational responsibility is clear and definite. Therefore, a major prerequisite of control is the existence of an organization structure. The clearer, more complete, and more integrated this structure is, the more effective control action can be.

One of the most frustrating situations managers can find themselves in is knowing that something is going wrong in their company agency or department and not knowing exactly where the responsibility for the trouble lies.

Figure 3.1: Relationship between planning and controlling
3.3 The Basic Control Processes

Control techniques and systems are essential for everything done. The basic control process involves mainly these steps as shown in Figure 3.2.

1.3.1 The Establishment of Standards

Because plans are the yardsticks against which controls must be revised, it follows logically that the first step in the control process would be to accomplish plans. Plans can be considered as the criterion or the standards against which we compare the actual performance in order to figure out the deviations.

Standards are by definition a simple criteria of performance. They are the selected points in an entire planning program where measures of performance are made so as to give managers signals as to how things are going without having to watch every step in the execution of plans.
Examples

- **Profitability standards:** In general, these standards indicate how much the company would like to make as profit over a given time period—that is, its return on investment.
- **Market position standards:** These standards indicate the share of total sales in a particular market that the company would like to have relative to its competitors.
- **Productivity standards:** How much that various segments of the organization should produce is the focus of these standards.
- **Product leadership standards:** These indicate what must be done to attain such a position.
- **Employee attitude standards:** These standards indicate what types of attitudes the company managers should strive to indicate in the company’s employees.
- **Social responsibility standards:** Such as making contribution to the society.
- **Long range goals:** Standards reflecting the relative balance between short and long range goals.

### 3.3.2 The Measurement of Performance

The measurement of performance against standards should be on a forward looking basis so that deviations may be detected in advance by appropriate actions. The degree of difficulty in measuring various types of organizational performance, of course, is determined primarily by the activity being measured. For example, it is far more difficult to measure the performance of highway maintenance worker than to measure the performance of a student enrolled in a college level management course.

### 3.3.3 Comparing Measured Performance to Stated Standards

When managers have taken a measure of organizational performance, their next step in controlling is to compare this measure against some standard. A **standard is the level of activity established to serve as a model for evaluating organizational performance.** The performance evaluated can be for the organization as a whole or for some individuals working within the organization. In essence, **standards are the yardsticks that determine whether organizational performance is adequate or inadequate.**
3.3.4 Taking Corrective Actions

After actual performance has been measured compared with established performance standards, the next step in the controlling process is to take corrective action, if necessary. **Corrective action** is managerial activity aimed at bringing organizational performance up to the level of performance standards. In other words, corrective action focuses on correcting organizational mistakes that hinder organizational performance. Before taking any corrective action, however, managers should make sure that the standards they are using were properly established and that their measurements of organizational performance are valid and reliable.

At first glance, it seems a fairly simple proposition that managers should take corrective action to eliminate problems - the factors within an organization that are barriers to organizational goal attainment. In practice, however, it is often difficult to pinpoint the problem causing some undesirable organizational effect.

Once the problem has been properly identified, corrective action can focus on one or more of the three primacy management functions of planning, organizing and influencing.

**What are the main types of control?**

There are mainly **three types of control**, these are:

a) **Pre control**: control that takes place before work is performed is called pre control, or **feed-forward control**. Managers using this type of control create policies, procedures, and rules aimed at eliminating behavior that will cause undesirable work results. For example, the manager of a small record shop may find that a major factor in attracting return customers is having salespeople discuss records with customers. This manager might use pre control by establishing a rule that sales people cannot talk to one another while a customer is in the store. This rule is a pre control because it is aimed at eliminating anticipated problems; salespeople can be so engrossed in conversation with one another that they neglect to chat with customers about records. **In summary, pre control focuses on eliminating predicted problems.**

b) **Concurrent control**: this refers to the control that takes place as work is being performed. **It relates not only to employees performance but also to such nonhuman areas as equipment performance and department appearance.**

c) **Feedback Control**: this refers to the control that concentrates on the post organizational
Managers exercising this type of control are attempting to take corrective action by looking at organizational history over a specified time period. This history may involve only one factor, such as inventory levels, or it may involve the relationships among many factors, such as the net income before taxes, sales volume, and marketing costs.

But

What are the requirements for adequate controls?

It is known that all managers want to have an adequate and effective system of control to assist them in making sure that events conform to plans.

Indeed, we can say that, if controls are to work, they must be tailored. In short, they must be tailored to:

- Plans and positions
- Individual managers and their responsibilities
- The needs for efficiency and effectiveness

Accordingly;

a) Control should be tailored to plans and positions

This means that, all control techniques and systems should reflect the plans they are designed to follow. This is because every plan and every kind and phase of an operation has its unique characteristics.

EX: controls for the sales department will differ from those for the finance department and those for the purchasing and personnel departments.

b) Control must be tailored to individual managers and their responsibilities

This means that controls must be tailored to the personality of individual managers. This because control systems and information are intended to help individual managers carry out their function of control. If they are not of a type that a manager can or will understand, they will not be useful.

What individual managers can not understand, they will not trust, and what they will not trust, they will not use
c) **Control should point up exceptions as critical points**
   This is because by concentration on exceptions from planned performance, controls based on the time honored exception principle allow managers to detect those places where their attention is required and should be given. However, it is not enough to look at exceptions, because some deviations from standards have little meaning and others have a great deal of significance.

d) **Control should be objective**
   This is because when controls are subjective, a manager's personality may influence judgments of performance inaccuracy.

   Objective standards can be quantitative such as costs or man hours per unit or date of job completion. They can also be qualitative in the case of training programs that have specific characteristics or are designed to accomplish a specific kind of upgrading of the quality of personnel.

e) **Control should be flexible**
   This means that controls should remain workable in the case of changed plans, unforeseen circumstances, or oversight failures. Much flexibility in control can be provided by having alternative plans for various probable situations.

f) **Control should be economical**
   This means that control must worth their cost. Although this requirement is simple, its practice is often complex. This is because a manager may find it difficult to know what a particular system is worth, or to know what it costs.

g) **Control should lead to corrective actions**
   This is because a control system will be of little benefit if it does not lead to corrective action, control is justified only if the indicated or experienced deviations from plans are corrected through appropriate planning, organizing, directing, and leading.

**But**

**What are the main barriers to successful controlling?**

There are many barriers, among the most important of them:

1. Control activities can create an undesirable overemphasis on short-term production as opposed to long-term production.
2. Control activities can increase employees' frustration with their jobs and thereby reduce morale. This reaction tends to occur primarily where management exerts too much control.
3. Control activities can encourage the falsification of reports.
(4) Control activities can cause the perspectives of organization members to be too narrow for the good of the organization.

(5) Control activities can be perceived as the goals of the control process rather than the means by which corrective action is taken.

3.4 Most Common Methods and Techniques for Controlling

Q: What are the most common methods and techniques for controlling?

3.4.1 The Traditional Control Devices (the Budget)

A widely used device for managerial control is the budget. Indeed, it has sometimes been assumed that budgeting is the device for accomplishing control.

Budgeting is the formulation of plans for a given future period in numerical terms. Thus budgets are statements of anticipated results, in financial terms - as in revenue and expense and capital budgets - or in no financial terms - as in budgets of direct- labor hours, materials, physical sales volume or units of production.

Through numerical statement of plans and breaking of these plans into components consistent with the organization structure, budgets force and correlate planning and allow authority to be delegated without loss of control.

However, there are many types of budgets such as:

- Revenue and expense budgets
- Time, space, material, and product budgets
- Capital expenditure budgets
- Cash budgets
- Balance sheet budgets
- Budget summaries
- Zero-base budgeting

3.4.2 The Traditional no Budgetary Control Devices

There are, of course, many traditional control devices not connected with budgets, although some may be related to, and used with, budgetary controls. Among the most important of these are: statistical data, special reports and analysis, analysis of break-even points, the operational audit, and the personal observation.
i) Statistical data:
Statistical analyses of innumerable aspects of a business operation and the clear presentation of statistical data, whether of a historical or forecast nature are, of course, important to control. Some managers can readily interpret tabular statistical data, but most managers prefer presentation of the data on charts.

ii) Break-even point analysis:
An interesting control device is the break even chart. This chart depicts the relationship of sales and expenses in such a way as to show at what volume revenues exactly cover expenses.

Break- because it emphasizes the marginal concept.

iii) Operational audit:
Another effective tool of managerial control is the internal audit or, as it is now coming to be called, the operational audit. Operational auditing, in its broadest sense, is the regular and independent appraisal, by a staff of internal auditors, of the accounting, financial, and other operations of a business.

iv) Personal observation:
In any preoccupation with the devices of managerial control, one should never overlook the importance of control through personal observation.

3.4.3 The Advanced and Quantitative Techniques and Devices:

a) Program Evaluation and Review Technique (PERT)

b) Control Through Return-on Investment (ROI)

c) Just-In-Time Inventory Control (JIT)

It is a technique for reducing inventories to a minimum by arranging for production components to be delivered to the production facility “just-in-time” to be used. JIT works best in companies that manufacture relatively standardized products for which there is consistent demand.

d) Ratio Analysis
A ratio is a relationship between two numbers that is calculated by dividing one number into the other. Ratio analysis is the process of generating information that summarizes the financial position of an organization through the calculation of ratios based on various financial measures that appear on the organization’s balance sheet and income statements.

e) Management by Objective and Appraisal by Results (MBO)
In MBO, the manager assigns a specialized set of objectives and action plans to workers and then rewards those workers on
f) Decision Tree Analysis
It is a statistical and graphical multi phased decision making technique that can be used in controlling.

g) Computer-Aided Design (CAD)

h) Computer-Aided Manufacturing (CAM)

i) Total Quality Management (TQM)
Refers to a quest in an organization, TQM expands the traditional view of quality—looking only at the quality of the final product or services – to looking at the quality of every aspects of the process that produces the product or service. TQM systems are intended to prevent poor quality from occurring. Successful TQM programs are built through the dedication and combined efforts of everyone in the organization.

Key points to be remembered:

- Control is the task of ensuring that the activities are providing the desired results.

- The control process involves:
  (a) Setting the target (criteria).
  (b) Measuring the actual performance.
  (c) Taking the corrective actions.

- There are many prerequisites for developing any controlling system, among them is that the important of:

- Control requires plans, as plans become the standards by which desired actions are measured.

- The basic control processes are:
  (a) The establishment of standards.
  (b) The measurement of performance.
  (c) Comparing measured performance to stated standards.
  (d) Taking corrective action.

- There are many types of control, among them:
  (a) Pre control.
  (b) Concurrent control.
  (c) Feedback control.
• Pre control or feed-forward control refers to the control that takes place before work is performed.

• Concurrent control refers to the control that takes place as work is being performed.

• Feedback control refers to the control that concentrates on the past organizational performance.

• Control must be tailored to:
  (a) Plans and positions.
  (b) The individual managers and their responsibilities.
  (c) The needs for efficiency and effectiveness.

• Control should be objective, flexible, and economical.

• There are many barriers to successful controlling:
  (a) Control activities can create an undesirable overemphasis on short-term objectives.
  (b) Control activities can increase employees frustration with their jobs and this in turn will decrease the morale level.
  (c) Control activities can encourage the falsification of reports.
  (d) Control activities can be perceived as the goals of the control process rather than the means by which corrective action is taken.

• The most common methods and techniques for controlling.
  Among the traditional control devices the budget.

• Among the most non budgetary control devices: the statistical data, the break even point analysis, the operational audit the personal observation.

• The advanced and quantities techniques and devices for control are:
  (a) PERT (program evaluation and review techniques)
  (b) Control through return on investment (ROI)
  (c) Just in time (JIT) system.
  (d) Ratio analysis.
  (e) Management by objectives and appraisal by results.
  (f) Decision Tree analysis.
  (g) Computer aided design (CAD).
  (h) Computer aided manufacturing (CAM).
  (i) Total quality management (TQM).