CHAPTER 10
CONTROLLING THE MANAGEMENT PROCESS
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Introduction

- Final component of management process
- Control procedures to ensure goals are met
- Actual performance compared to standard required
- Forms the basis for a new cycle of management activities – feedback and review process which influences planning
- Areas of control management should focus on
- Characteristics of effective control system
The purpose of control

• Linked with planning, organising and leading
• Helps companies adapt to environmental change
• Helps limit the accumulation of error
• Helps companies cope with increasing organisational size and complexity
• Helps minimise costs
The control process

1. Setting standards (derived from goals)
2. Measuring actual performance
3. Evaluating deviations (performance gap)
4. Rectifying deviations (corrective actions)

Figure 10.1: The control process
Step 1: Establish standards

- Establish a performance standard at strategic points
- Performance or control standard is a planned target against which the actual performance will be compared
- Appropriate performance standards:
  - Profit standards
  - Market-share standards
  - Productivity standards
  - Staff-development standards.
Step 2: Measure actual performance

- Collection of information and reporting on actual performance are continuous activities.
- Activities need to be quantifiable before any valid comparisons can be made.
- Important requirement for reports to be absolutely reliable for the measurement of actual achievements.
Step 2: Measure actual performance

• Need to establish what information and how much information should be gathered and given to whom

• Control by exception – only important disparities reported to top management in large organisations
Step 3: Evaluate deviations

• Determine the performance gap between the performance standard and actual performance
• Important to know why a standard has only been matched, and not exceeded
• Important to know why performance has been much better than the standard
Step 3: Evaluate deviations

- Essential to ensure that the disparities are genuine
- Determine whether the deviations are large enough to justify further investigation
- All reasons for the deviations and the relevant activities should be identified
Step 4: Take corrective action

- Corrective actions need to be taken to ensure that deviations do not recur
- If actual achievements match standards then no corrective action is needed
- If actual achievements do not match standards, three possible actions exist:
  - Actual performance can be improved to reach the standards
  - Strategies can be revised to accomplish the standards
  - Performance standards can be lowered or raised to make them more realistic
Types of control

- Organisations control activities and processes in a number of different areas and at different levels in the organisation.
- The four key areas of control include the following:
  - Physical resources
  - Human resources
  - Information sources
  - Financial resources.
Key areas of control

Figure 10.2: Key areas of control
The control of physical resources

- **Inventory control**
  - Economic-ordering quantity (EQP)
  - Material requirements planning (MRP) system
  - Just-in-time (JIT) system

- **Quality control**
  - Define the quality goals or standards
  - Measure quality
  - Rectify deviations and solve quality problems in an effort to keep the cost of quality as low as possible
The control of financial resources

- Financial resources and abilities are vital to the success of the organisation, and therefore need to be strictly controlled.
- Financial control is concerned with the following:
  - Resources as they flow into the organisation
  - Financial resources that are held by the organisation
  - Financial resources flowing out of the organisation.
The budget

• The budget contributes to financial control:
  – Supports management in coordinating resources, departments and projects
  – Provides guidelines on application of the organisation’s resources
  – Defines or sets standards that are vital to the control process
  – Makes possible the evaluation of resource allocation, departments or units.

• Financial analysis (or ratio analysis) can be used to complement the budget when applying financial control
## Types of budgets

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<th>Type of budget</th>
<th>Focus</th>
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<tr>
<td>Financial budgets</td>
<td>Focus on cash flow&lt;br&gt;Focus on capital expenditure</td>
<td>Cash-flow budget&lt;br&gt;Capital budget</td>
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<td>Operational budgets</td>
<td>Revenue&lt;br&gt;Focus on the operational aspects of the organisation</td>
<td>Sales budgets and contract budgets</td>
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<td>Non-financial budgets</td>
<td>Focus on diverse aspects of the organisation that are not expressed in financial terms</td>
<td>Production budgets in units&lt;br&gt;Sales volumes in units&lt;br&gt;Time projections of projects</td>
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The control of information resources

• Relevant and timely information made available to management during the management process is vital in monitoring how well goals are accomplished.

• The faster feedback is received, the more effectively the organisation’s control systems function.
The control of human resources

• Control of human resources falls within the ambit of human resources management
• The main instrument used to control an organisation’s human resources is performance measurement
• Other human-resources control instruments include specific ratio analyses that can be applied in respect of labour turnover, absenteeism and the composition of the labour force
Characteristics of an effective control system

- Integration
- Flexibility
- Accuracy
- Timeliness
- Simplicity
Integration of planning and control

Figure 10.3: Integration of planning and control
Summary

• Control is a fundamental management function
• Final step in management process
• Starting point for planning and strategic development
• Control focuses on activity in organisation, but also physical, financial, information and human resources
Summary (continued)

• Effective control systems characterised by how far planning and control are integrated
• Application of control system should not become so complex that it costs more than it saves