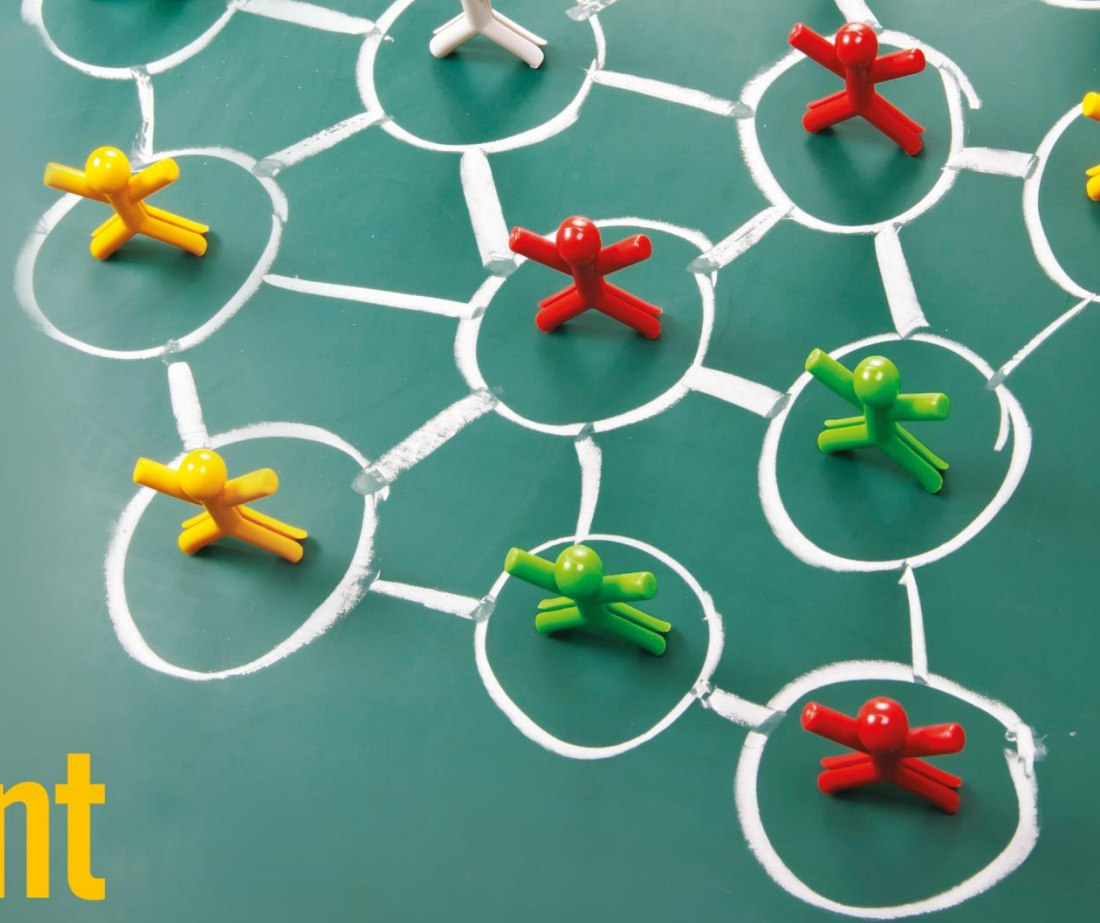


Introduction to  
**Business  
Management**

9<sup>TH</sup> EDITION

CHAPTER 10  
CONTROLLING THE  
MANAGEMENT PROCESS





# Chapter content

- Introduction
- The purpose of control
- The control process
- Types of control
- Characteristics of an effective control system
- Summary



# Introduction

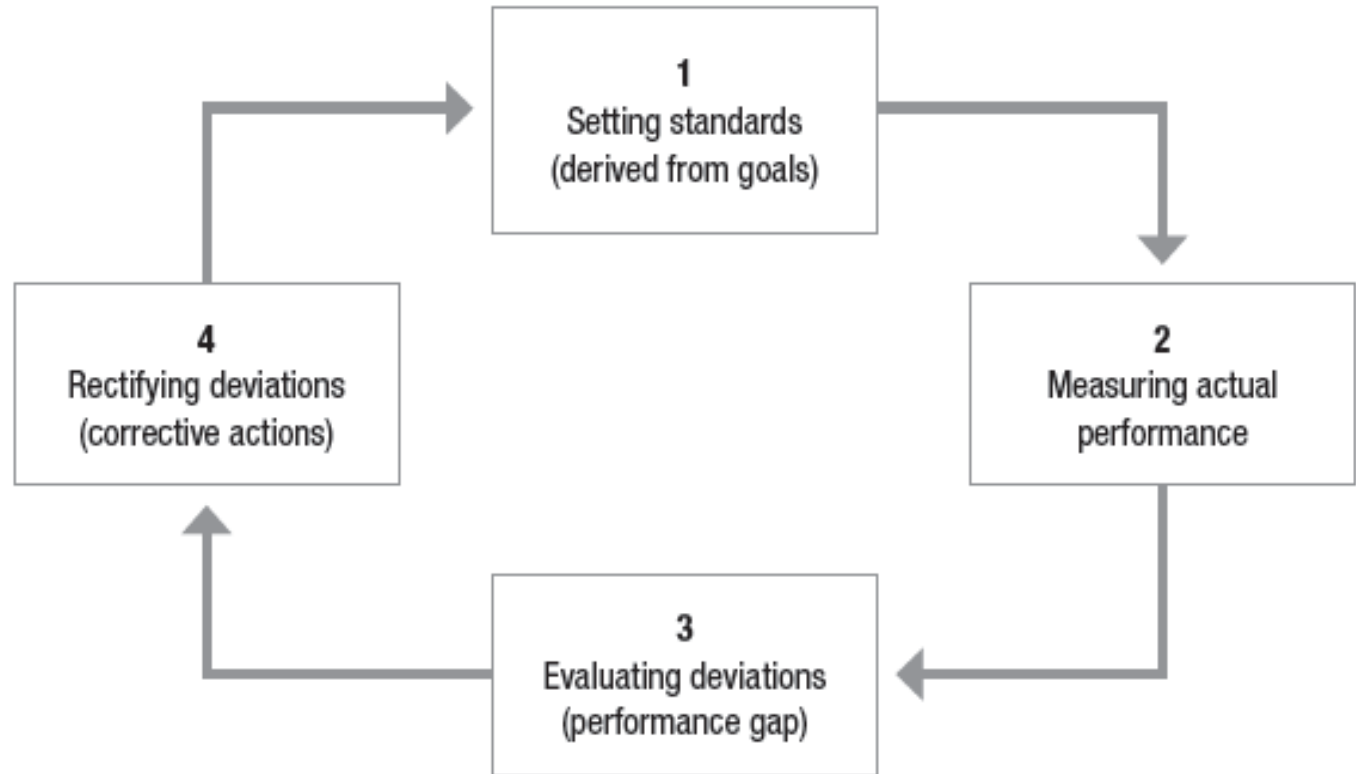
- Final component of management process
- Control procedures to ensure goals are met
- Actual performance compared to standard required
- Forms the basis for a new cycle of management activities – feedback and review process which influences planning
- Areas of control management should focus on
- Characteristics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




**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

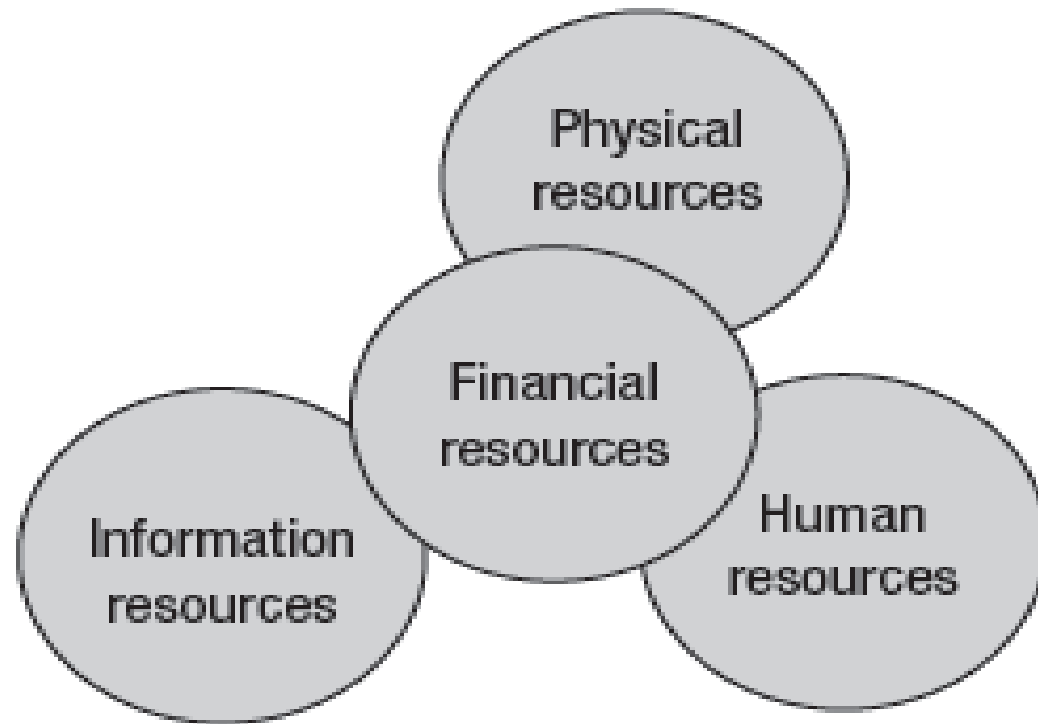
- Corrective actions need to be taken to ensure that deviations do not recur
- If actual achievements match standards then no corrective action is needed
- If actual achievements do not match standards, three possible actions exist:
  - Actual performance can be improved to reach the standards
  - Strategies 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

Table 10.1: Types of budgets

Type of budget	Focus	Examples
Financial budgets	<ul style="list-style-type: none"><li>● Focus on cash flow</li><li>● Focus on capital expenditure</li></ul>	<ul style="list-style-type: none"><li>● Cash-flow budget</li><li>● Capital budget</li></ul>
Operational budgets	<ul style="list-style-type: none"><li>● Revenue</li><li>● Focus on the operational aspects of the organisation</li></ul>	<ul style="list-style-type: none"><li>● Sales budgets and contract budgets</li></ul>
Non-financial budgets	<ul style="list-style-type: none"><li>● Focus on diverse aspects of the organisation that are not expressed in financial terms</li></ul>	<ul style="list-style-type: none"><li>● Production budgets in units</li><li>● Sales volumes in units</li><li>● Time projections of projects</li></ul>



# 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

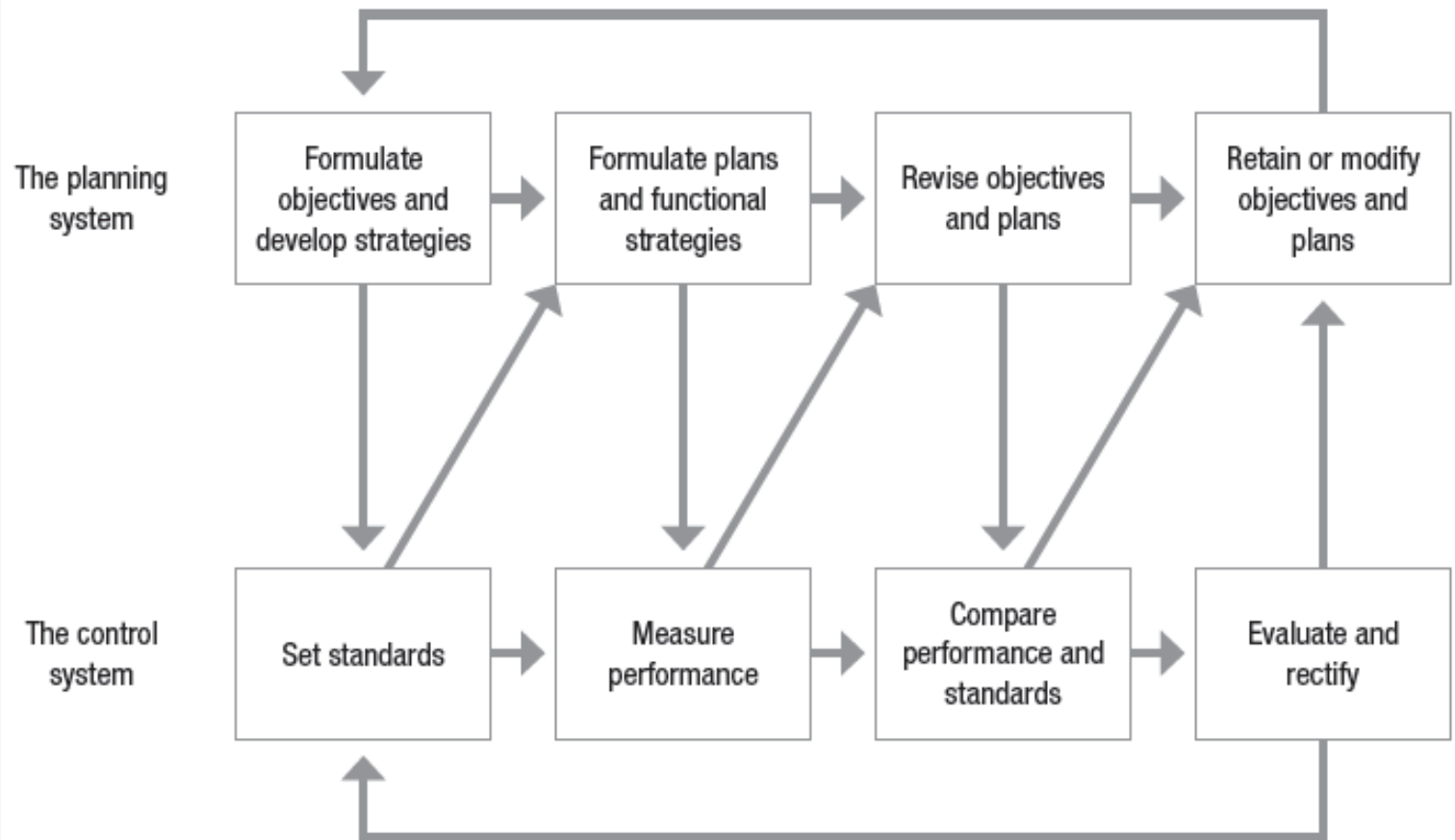



Figure 10.3: Integration of planning and control



# 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