CHAPTER FOURTEEN

Control

INTRODUCTION

Control is the final function of management and includes designing and implementing systems to ensure that actions of organizational members are consistent with organizational goals, standards, and values. Controls can be strong and visible, such as are needed in a maximum security prison, or they can be more relaxed and invisible, such as are needed in a group of volunteers working at the local food bank. The current chapter addresses the control process and shows the value of this fourth and final managerial function.

DETAILED LECTURE OUTLINE

I. Introduction to control
   A. Controlling means ensuring that members are acting consistently with the organization’s values and standards
   B. Four steps in the control process
      1. Establish key organizational performance standards
      2. Monitor performance
      3. Evaluate performance
      4. Respond accordingly

II. Mainstream approach to the four-step control process
   A. Mainstream control focuses on maximizing productivity, efficiency, profitability, and owner wealth
   B. The four-step control process
      1. Step 1: Establish the performance standards
         a) Because they cannot control everything, managers must be selective in identifying which activities are most important to control
         b) Value chain = shows the sequence of activities needed to convert an organization’s inputs into outputs
            (1) Three basic parts of a value chain
               (a) Inputs
               (b) Conversion processes = activities that occur within an organizational unit that add value to its inputs as it creates its outputs
               (c) Outputs
            (2) Helps managers to:
               (a) Identify and establish key performance standards
               (b) Design control systems that minimize costs associated with waste, over-production, waiting, transportation, inventory, and defects
            (3) Logistics = the structures and systems required to physically move resources into, within, and out from an organization
               c) Control systems help managers to identify and monitor key steps in the value chain
(1) Three types of control systems correspond to basic steps in the value chain
   (a) Feedforward controls are designed to reduce organizational problems before they occur
   (b) Concurrent controls address the conversion processes and help managers to identify and correct problems as they occur
   (c) Feedback controls are designed to identify and correct problems after they occur and to avoid future problems
(2) Six Sigma is a control system working toward processes that allow outputs to be defect-free 99.9997 percent of the time
(3) Five popular Mainstream performance standards
   (a) Liquidity ratios reflect the ability to quickly convert assets to cash
   (b) Leverage ratios reflect the amount of debts compared to assets
   (c) Activity measurements reflect issues such as the amount of inventory possessed compared to inventory needed
   (d) Profitability ratios reflect return on investment and profit margin
   (e) Factor productivity reflects how well the organization performs in general or with regard to specific inputs

2. Step 2: Monitor performance
   a) Information systems help managers to identify, collect, organize, and disseminate information
      (1) Data = facts and figures, some of which are useful, many of which are not
      (2) Information = data that have been given meaning and are deemed to have value
   b) Factors in designing an information system
      (1) Should be based on accurate data
      (2) Information amount should be balanced
      (3) Should be timely and provide useful feedback
      (4) Should be user-friendly
      (5) Can measure outcomes or behaviors, the latter of which may be more costly to measure
      (6) Can use single measures or multiple measures of activities
   c) Transaction-processing systems record and process recurring and routine activities that take place in an organization
   d) Operations information systems help managers to monitor and coordinate the flow of work between various organizational subunits and their suppliers and, in particular, help to identify and overcome potential bottlenecks, shortages in inventory, and over-production
   e) Decision support systems enable managers to gather and manipulate data from a variety of sources to help evaluate performance
   f) Three types of inventory that need to be managed:
      (1) Raw materials inventory = basic inputs
      (2) Work-in-process inventory = materials that are in the production process
      (3) Finished-goods inventory = completed products that have not yet been sold to customers
   g) Just-in-time inventory management systems bring all the needed materials for production together literally “just in time” for them to be combined into the finished product

3. Step 3: Evaluate performance
a) Managers compare the information collected in the second step to the goals or standards established in the first step
b) Mainstream managers increasingly realize the value of evaluating systems rather than individuals
c) Total Quality Management (TQM) emphasizes how managers can continuously improve an organization’s work systems so that its products or services better deliver the quality desired by customers

4. Step 4: Respond accordingly
a) This is an ongoing activity that can involve any step or stakeholder in the value chain
b) Mainstream responding focuses on getting performance up to standards

III. Multistream approach to the four-step control process

A. In contrast to the Mainstream focus on controlling employee behavior, the Multistream focus is on designing systems that help stakeholders to participate in the control process

B. The four-step process
1. Step 1: Establish key performance standards
a) Value chains versus value loops
   (1) The Multistream perspective recognizes two key drawbacks of value chains:
      (a) The two ends of the chain are unconnected and thus do not reveal potential links from outputs to inputs, and vice versa
      (b) The chain components are viewed as sequential and linear rather than interlinked and flexible in ordering
   (2) Value loop: describes the activities whereby an organization’s inputs are converted into outputs, which in turn are linked to the organization’s future inputs
   (3) Differences between value loops and value chains
      (a) Value loops add a new node, “environmental resources and process,” that shows the source of inputs and future output contributions
      (b) Value loops explicitly recognize that resources flow in both directions between the links
   b) Value loops help managers establish performance standards for the three control areas:
      (1) Inputs: In addition to the Mainstream focus on price, technical expertise, and reliability, Multistream managers also consider working conditions and the ecological record of suppliers
      (2) Conversion process: Multistream managers are sensitive to the sustenance economics of processes rather than just to the acquisitive economics
      (3) Outputs: Multistream managers consider the effects of their activities on the physical and social environments
   c) Multistream performance standards conceptualize well-being on a broader spectrum than traditional Mainstream performance standards
      (1) Balanced scorecard = a tool that balances the use of financial goals with the use of other valuable goals that are important to overall well-being
      (2) Examples of possible Multistream performance measures
         (a) Participation/Inclusion = a measure of the involvement of stakeholders in making decisions
         (b) Financial/Ecological = a measure of how efficiently an
organization transforms ecological resources into economic value
(c) Ecological transformation = compares waste to reduction in waste
(d) Social justice = the organization’s effect on marginalized groups
(e) Long-term perspective = the time and resources devoted to long-term concerns

2. Step 2: Monitor performance
   a) Three key differences between Multistream and Mainstream perspectives
      (1) Mainstream information systems are built around value chains, whereas Multistream information systems are built around value loops
         (a) Electronic hubs (eHubs) transmit information in real time to all stakeholders, enabling coordination and adjustments
      (2) Multistream information systems help stakeholders monitor performance (as opposed to just managers monitoring performance)
         (a) Multistream managers tend to be more interested in the process of behavior, whereas Mainstream managers tend to focus on the outcomes of the behavior
      (3) Multistream information systems are designed to help enhance the well-being of multiple stakeholders in a variety of ways

3. Step 3: Evaluate performance
   a) Multistream approach extends the TQM approach in three ways:
      (1) Focuses on even larger systemic feedback loops
      (2) Goes beyond performance criteria that focus on maximizing productivity and profitability
      (3) Involves numerous stakeholders in evaluating performance

4. Step 4: Respond accordingly
   a) Multistream managers tend to believe that problems are best solved from the bottom up whereas Mainstream managers tend to attack problems from the top down
   b) Stakeholders take an active approach to responding to and improving the control process