Introduction to Control

• Controlling
  – Ensuring that actions of organizational members are consistent with its underpinning values and standards.

• The Four-Step Control Process:
  1. Establish key performance standards
  2. Monitor performance
  3. Evaluate performance
  4. Respond accordingly
Mainstream Approach to the Four-Step Control Process

- Step 1: Establish performance standards
  - A value chain—the sequence of activities needed to convert an organization’s inputs into outputs—is a crucial tool for helping managers identify and establish key performance standards.

Figure 18.1: The Three Basic Parts of a Value Chain

Figure 18.2: Examples of Value Chains
Management in Practice: Popular Performance Standards

Liquidity ratios:
- Current ratio = current assets / current liabilities
- Quick ratio = (current assets - inventory) / current liabilities

Activity measurements:
- Inventory turnover = cost of goods sold / average inventory
- Conversion ratio = purchase orders / customer inquiries

Profitability ratios:
- Return on investment (ROI) = net profit after taxes / total assets
- Profit margin = net income / sales

Factor productivity:
- Total factor productivity = value of outputs / (value of labor + capital + materials + energy)
- Labor productivity = value of outputs / value of direct labor

Mainstream Approach to the Four-Step Control Process (cont’d)

• Step 2: Monitor performance
  – Data
    • Facts and figures, some of which managers deem to be useful but the majority are not.
  – Information
    • Data that have been given meaning and deemed to have value.
  – Information system
    • Helps managers monitor performance by identifying, collecting, organizing and disseminating information.

What Do You Think?
What Values Are Built Into the Information that We Consume?

• In organizations where you have worked, what was measured and communicated as important information?
• How did that information influence how you or your managers acted on a daily basis?
• What was communicated in your organization that defined “success”? 
What Do You Think:
Computer-based Control Systems: Friend or Foe?

• Do virtual offices provide welcome freedom for workers, or does technology ensure that workers are always “on call” and under stress?
• How is technology creating distance between people instead of meeting its promise of “bringing people closer”?
• Does technology help us or distract us from counting the things that truly count?

Mainstream Approach to the Four-Step Control Process (cont’d)

• Step 3: Evaluate performance
  – Compare information collected in second step to goals or standards in the first step.
  – Evaluate system or individual performance?
• Total Quality Management (TQM)
  – Seeking continuous improvement in work systems so that products or services better meet the quality desired by customers.

Deming on Quality

• There will always be variation in the performance of systems and workers.
• Individual performance is determined more by systemic (organizational) factors than by the individual.
• It is management’s responsibility to improve the systems.
• Less variation yields higher quality output
Mainstream Approach to the Four-Step Control Process (cont’d)

• Step 4: Respond accordingly
  – Reward, punish, and train workers as appropriate.
  – Fine-tune and improve each step in the control system.
  – “Change-for-the-better” (kaizen) event
    • 1st day—learning about value chains
    • 2nd day—describing organization’s value chain
    • 3rd day—identifying how to improve the value chain

Multistream Approach to the Four-Step Control Process (cont’d)

• Step 1: Establish performance standards
  – Value chain drawbacks
    • Ends of a value chain remain unconnected.
    • Value chain components are treated as sequential and linear which does not recognize the interplay and the processes in the “links” in the chain.
  – Value loop
    • The activities whereby an organization’s inputs are converted into outputs, which in turn are linked to the organization’s future inputs.

Multistream Approach to the Four-Step Control Process (cont’d)

• Advantages of Value Loops
  – Consider environmental resources and processes—where inputs are drawn from and what outputs contribute to.
  – Explicitly recognize that the flow of resources travels in both directions between the links.
  – Help Multistream managers establish performance standards in each of the control areas: inputs, conversion, outputs.
Figure 18.3: A General Multistream Value Loop

Figure 18.4: A Specific Multistream Value Loop at Interface, Inc.

Figure 18.5: U.S. "Genuine Progress"
Management in Practice: Multistream Performance Standards

- Participation/Inclusion: How involved are stakeholders in making decisions?
  - Project Group Diversity = Number of external stakeholders on the group / Total number of group members
  - Shareholder Input = Number of shareholder proposals accepted / Number of proposals submitted

- Ecological/Financial: How efficient is the organization at transforming ecological resources into economic value?
  - FinEco ratio = Financial value of outputs / Ecological footprint
  - Waste ratio = Financial value of outputs / Costs to clean-up waste

- Ecological transformation: Is the organization creating more waste than it is reducing?
  - Ecological efficiency = Outputs that are perceived to be pollution / Inputs that had been perceived to be pollution

Multistream Information Systems

- Electronic Hubs (eHubs)
  - Transmit information real-time, among all stakeholders, thereby enabling coordination and mutual adjustment by stakeholders from a variety of organizations.
  - Characteristics of eHubs
    - Control does not reside with managers—stakeholders practice self-control.
    - Managers become “advocates” who work on the behalf of others.
    - Participants must trust each other.

Multistream Approach to the Four-Step Control Process (cont’d)

- Step 3: Evaluate performance
  - Emphasizes relational and qualitative measures of performance of human, intellectual, social, and spiritual capital.
    - Multistream Total Quality Management:
      - Focuses on larger systemic feedback loops that include the socio-cultural, ecological, political-legal, and economic-technological environments.
      - Uses a wide variety of competing goals as performance criteria to evaluate performance.
      - Involves external stakeholders in evaluating performance.
Multistream Approach to the Four-Step Control Process (cont’d)

• Step 4: Respond accordingly
  – Multistream managers:
    • Will seek help from others to understand why inadequate performance occurred and to develop a way to resolve the problem.
    • Assume that problems are best-solved from the bottom-up.
    • Treat members with dignity and respect by giving members a voice in developing and enforcing control processes.