

21.16: Controlling

Learning Objectives

- Explain why control is an essential part of effective management
- Explain what SMART objectives are
- Outline the steps of the control process

What Is Control?

Figure 1. Parking lot control



Figure 21.16.1: Parking lot control

Consider the two images in Figure 21.16.1 of two parking lots. Think of the two parking lots as two different organizations. What you can see is that one has management controls in place, and the other does not. In the second photo no one is in charge of controlling the actions and activities of the employees within the company—it's a free-for-all.

It might seem attractive, at first, to work for a company where people aren't telling you what to do, how to do it, or when things are due. But it wouldn't take too long, probably, for all that freedom to feel like chaos. In this section we'll focus on the control function of management to better understand how it helps people and organizations achieve goals and objectives.

In business or management context, control is the activity of observing a given organizational process, measuring performance against a previously established metric, and improving it where possible. Organizations are made up of operational processes and systems, each of which can be iterated upon and optimized. At the upper-managerial level, control revolves around setting strategic objectives for the short and long term, as well as measuring overall organizational success. Developing methods for optimizing operational processes is often done at the mid-managerial level. The mid-level manager measures success within his or her span of control—which could be a division, a region, or a particular product. The line manager is then responsible for controlling the actions of the workers to ensure that activities are carried out in a way that optimizes outcomes and outputs. He or she will measure the success of individual workers, work teams, or even a shift. What managers up and down the organizational chart have in common is that they all use the same process for carrying out the control function of management.

As Figure 21.16.2 shows, controlling can be visualized as a cyclical process made up of five stages:

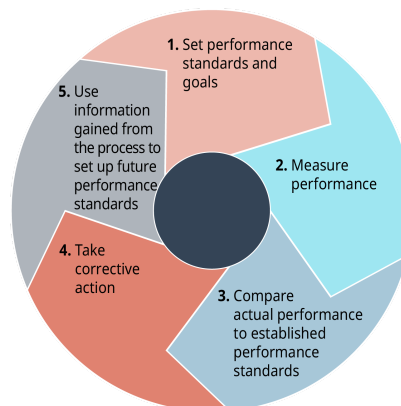


Figure 21.16.2: The control process

Performance standards are the levels of performance the company wants to attain. These goals are based on its strategic, tactical, and operational plans. The most effective performance standards state a measurable behavioral objective that can be achieved in a specified time frame. For example, the performance objective for the sales division of a company could be stated as "\$200,000 in gross sales for the month of January." Each individual employee in that division would also have a specified performance goal. Actual firm, division, or individual performance can be measured against desired performance standards to see if a gap exists between the desired level of performance and the actual level of performance. If a performance gap does exist, the reason for it must be determined and corrective action taken.

Feedback is essential to the process of control. Most companies have a reporting system that identifies areas where performance standards are not being met. A feedback system helps managers detect problems before they get out of hand. If a problem exists, the managers take corrective action. Toyota uses a simple but effective control system on its automobile assembly lines. Each worker serves as the customer for the process just before his or hers. Each worker is empowered to act as a quality control inspector. If a part is defective or not installed properly, the next worker won't accept it. Any worker can alert the supervisor to a problem by tugging on a rope that turns on a warning light (i.e., feedback). If the problem isn't corrected, the worker can stop the entire assembly line.

Why is controlling such an important part of a manager's job? First, it helps managers to determine the success of the other three functions: planning, organizing, and leading. Second, control systems direct employee behavior toward achieving organizational goals. Third, control systems provide a means of coordinating employee activities and integrating resources throughout the organization.

Take special note of the language that we use when we talk about the control function—*process*! Controlling the activities within an organization is a continuous process that resembles navigation. In order to reach a destination, a ship navigator sets a course and then constantly checks the headings—if the ship has drifted off course, the navigator makes the necessary corrections. This cycle of check-and-correct, check-and-correct happens over and over to keep the ship on course and get it to where it's going. Similarly, the controlling function in business is a process of repeatedly checking and correcting until standards and objectives are met.

Another feature of the control process is that it's designed to be proactive. The idea is for managers to intervene before costly or damaging problems occur, rather than waiting and hoping for the best. It's better to take corrective action when you're drifting off course than try to salvage your ship after you've crashed into a rock. The benefit to managers and organizations of a forward-looking, proactive approach is that it reduces customer complaints, employee frustration, and waste.

? Practice Question

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Setting Standards and Objectives

Organizational standards and objectives are important elements in any plan because they guide managerial decision making. Performance standards and objectives may be stated in monetary terms—such as revenue, costs, or profits—but they may also be set in other terms, such as units produced, number of defective products, levels of quality, or degree of customer satisfaction.

Peter Drucker suggests that operational objectives should be SMART, which means specific, measurable, achievable, realistic, and time constrained. An operational objective should be:

- **Specific.** A focused, well defined, and clear enough that employees know what is expected. A specific objective should identify the expected actions and outcomes. This helps employees stay on track and work toward appropriate goals.
- **Measurable** and quantifiable so people can assess whether it has been met or not. For example, “increase annual sales revenue by 10 percent” is a measurable objective.
- **Achievable.** It’s important for all the stakeholders—especially the employees doing the work—to agree that the objective can be met. Unachievable objectives can be damaging to employee trust and morale.
- **Realistic** as well as ambitious. It should take into account the available resources and time.
- **Time constrained.** Having a deadline can help increase productivity and prevent the work from dragging on.

It’s important to get employee input during the process of developing operational objectives, as it may be challenging for employees to understand or accept them after they’re set. After determining appropriate operational objectives for each department, plans can be made to achieve them.

? Practice Question

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Measuring Performance

Performance measurement is the process of collecting, analyzing, and/or reporting information regarding the performance of an individual, group, organization, system, or component. The ways in which managers and organizations measure performance vary greatly—there is no single systemic approach that fits all companies or conditions. The most important element of measuring performance is to do them at regular intervals and/or when particular milestones are reached. The best processes for measuring performance provide information in time for day-to-day decisions.

The rubric for measuring organizational performance is called a **performance metric**. The American Society for Quality (ASQ) defines performance metrics as “data representative of an organization’s actions, abilities, and overall quality.”^[1] Note that the metrics relevant to a business’s performance vary significantly across industries. Because it’s impossible to track all available data regarding an organization’s performance, it’s important to identify the key performance metrics – often referred to as KPIs or key performance indicators – that are most relevant to a specific business’s success. Once defined, the process of measurement and reporting KPI must be clearly documented and communicated so that results are consistent and comparable over time.

In order to be effective, metrics should reflect a range of stakeholder perspectives, including those of customers, shareholders, and employees. Metrics may be finance based or they may focus on some other measure of performance, such as customer service, customer perceptions of product value or employee satisfaction. Typical financial metrics include revenue or sales growth, gross and net profit, stock price and market share. Operating metrics generally focus on productivity and quality, including customer satisfaction. For example, Amazon tracks and enforces a number of seller performance metrics including on-time delivery, order defect rate, cancellation rate and customer service dissatisfaction rate.

The performance metric development process can be summarized as follows:

- Describe the target objective(s)
- Evaluate possible measurements
- Identify the correct metric for each objective
- Set targets and determine how data will be interpreted – for example, setting a range around a target value and defining levels of performance.
- Define and document the performance metric and related processes and procedures.^[2]

Analyzing Performance

Once performance has been measured, managers must analyze the results and evaluate whether objectives have been met, efficiencies achieved, or goals obtained. The means by which performance is analyzed vary among organizations; however, one tool that has gained widespread adoption is the **balanced scorecard**. A balanced scorecard is a semi-standardized strategic management tool used to analyze and improve key performance indicators within an organization. The original design of this balanced scorecard has evolved over the last couple decades and now includes a number of other variables—mostly where performance intersects with corporate strategy. Corporate strategic objectives were added to allow for a more comprehensive strategic planning exercise. Today, this second-generation balanced scorecard is often referred to as a “strategy map,” but the conventional “balanced scorecard” is still used to refer to anything consistent with a pictographic strategic management tool.

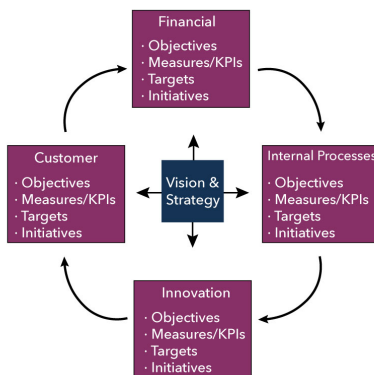


Figure 21.16.3: The balanced scorecard: On a standard balanced scorecard, each “perspective” reminds the user to articulate attributes necessary for an effective scorecard: the financial perspective, the customer’s perspective, innovation, and internal processes, all of which come together to form an organization’s vision and strategy.

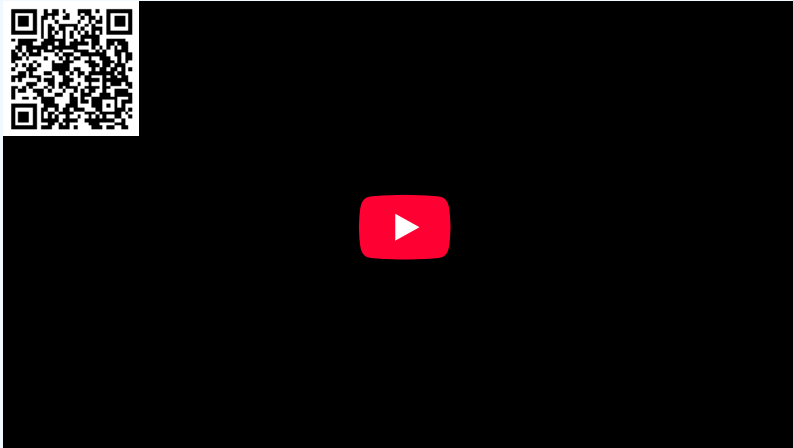
The following four perspectives are represented in a balanced scorecard:

1. **Financial:** includes measures focused on the question “How do we look to shareholders?”
2. **Customer:** includes measures focused on the question “How do customers perceive us?”
3. **Internal business processes:** includes measures focused on the question “What must we excel at?”
4. **Learning and growth:** includes measures focused on the question “How can we continue to improve and create value?”

Managers generally use this tool to identify areas of the organization that need better alignment and control vis-à-vis the broader organizational vision and strategy. The balanced scorecard brings each of an organization’s moving parts into one view in order to improve synergy and continuity between functional areas.

? Try It

Check out this video for a visual summary of a balanced scorecard



You can [view the transcript for "Balanced Scorecard"](#) (opens in new window).

Taking Corrective Action

Once the cause of nonperformance or underperformance has been identified, managers can take corrective action. **Corrective action** is essentially a planned response aimed at fixing a problem. At this stage of the controlling process, problem-solving is key.

The first step managers must take is to accurately identify the problem, which can sometimes be hard to distinguish from its symptoms or effects. Collecting information and measuring each process carefully are important prerequisites to pinpointing the problem and taking the proper corrective action. Attempts at corrective action are often unsuccessful because of failures in the problem-solving process, such as not having enough information to isolate the real problem, or the presence of a manager or decision maker who has a stake in the process and doesn't want to admit that his department made a mistake. Another reason why the problem-solving process can run aground is if the manager or decision maker was never properly trained to analyze a problem.

Once the problem is identified, and a method of corrective action is determined, it needs to be implemented as quickly as possible. A map of checkpoints and deadlines, assigned to individuals in a clear and concise manner, facilitates prompt implementation. In many ways, this part of the control process is very much a process itself. Its steps can vary greatly depending on the issue being addressed, but in all cases it should be clear how the corrective actions will lead to the desired results.

Next, it's important to schedule a review and evaluation of the solution. This way, if the corrective action doesn't bring the desired results, further action can be taken swiftly—before the organization falls even further behind in meeting its goals. Organizations may also decide to discuss a problem and potential solutions with stakeholders. It's useful to have some contingency plans in place, as employees, customers, or vendors may have unique perspectives on the problem. Gaining a broader view can sometimes help management arrive at a more effective solution.

? Practice Question

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A manager must use a wide range of skills to navigate the management process well. This journey begins with sound planning, based on a set of SMART goals and objectives. The manager leads both people and processes, using a blend of leadership and management styles appropriate to the situation. If the manager has done a good job of placing the right people in the right places, and has implemented sound standards and performance metrics, then she is well-positioned to take corrective action where needed. Regardless of whether the task is to get a customer's order assembled and shipped on time or expand into a new market, the functions of the manager remain unchanged.

1. "What Are Performance Metrics?" ASQ. Accessed June 25, 2019. <https://asq.org/quality-resources/metrics>. ↩
2. "How to Develop KPIs / Performance Measures." Kpi.org. Accessed June 25, 2019. <https://kpi.org/KPI-Basics/KPI-Development>. ↩

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