CHAPTER 20

Basic Elements of Control

Summary of Learning Objectives and Key Points

1. Explain the purpose of control, identify different types of control, and describe the steps in the control process.

   - Control is the regulation of organizational activities so that some targeted element of performance remains within acceptable limits.

   - Control provides ways to adapt to environmental change, to limit the accumulation of errors, to cope with organizational complexity, and to minimize costs.

   - Control can focus on financial, physical, information, and human resources and includes operations, financial, structural, and strategic levels.

   - Control is the function of managers, the controller, and, increasingly, of operating employees.

   - Steps in the control process are
     - to establish standards of expected performance
     - to measure actual performance
     - to compare performance to the standards
     - to evaluate the comparison and take appropriate action

2. Identify and explain the three forms of operations control.
• Operations control focuses on the processes the organization uses to transform resources into products or services.

• Preliminary control is concerned with the resources that serve as inputs to the system.

• Screening control is concerned with the transformation processes used by the organization.

• Postaction control is concerned with the outputs of the organization.

• Most organizations need multiple control systems because no one system can provide adequate control.

3. Describe budgets and other tools for financial control.

• Financial control focuses on controlling the organization’s financial resources.

• The foundation of financial control is budgets, which are plans expressed in numerical terms.

• Most organizations rely on financial, operating, and nonmonetary budgets.

• Financial statements, various kinds of ratios, and external and internal audits are also important tools organizations use as part of financial control.

4. Identify and distinguish between two opposing forms of structural control.

• Structural control addresses how well an organization’s structural elements serve their intended purpose.

• Two basic forms of structural control are bureaucratic and decentralized control.
  • Bureaucratic control is relatively formal and mechanistic.
  • Decentralized control is informal and organic.
Most organizations use a form of organizational control somewhere between total bureaucratic and total decentralized control.

5. Discuss the relationship between strategy and control, including international strategic control.
   
   - Strategic control focuses on how effectively the organization’s strategies are succeeding in helping the organization meet its goals.
   
   - The integration of strategy and control is generally achieved through organization structure, leadership, technology, human resources, and information and operational control systems.
   
   - International strategic control is also important for multinational organizations.
   
   - The foundation of international strategic control is whether to practice centralized or decentralized control.

6. Identify characteristics of effective control, why people resist control, and how managers can overcome this resistance.
   
   - One way to increase the effectiveness of control is to fully integrate planning and control.
   
   - The control system should also be as flexible, accurate, timely, and objective as possible.
   
   - Employees may resist organizational controls because of overcontrol, inappropriate focus, rewards for inefficiency, and a desire to avoid accountability.
   
   - Managers can overcome this resistance by improving the effectiveness of controls and by allowing employee participation and developing verification procedures.