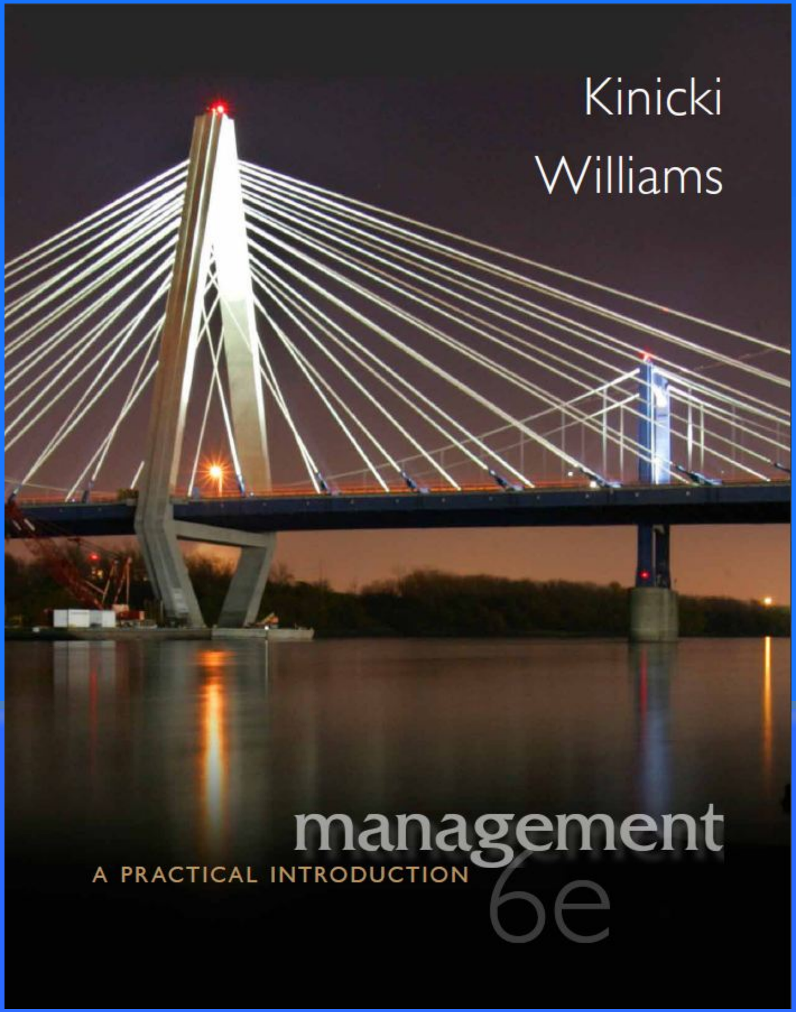


Control & Quality Control Improvement:

Techniques for Enhancing Organizational Effectiveness

Chapter Sixteen

McGraw-Hill/Irwin

Major Questions You Should Be Able to Answer

16.1 How do managers influence productivity?

16.2 Why is control such an important managerial function?

16.3 How do successful companies implement controls?

16.4 How can three techniques—balanced scorecard, strategy maps, and measurement management—help me establish standards and measure performance?

Major Questions You Should Be Able to Answer

16.5 What are the financial tools I need to know about?

16.6 How do top companies improve the quality of their products or services?

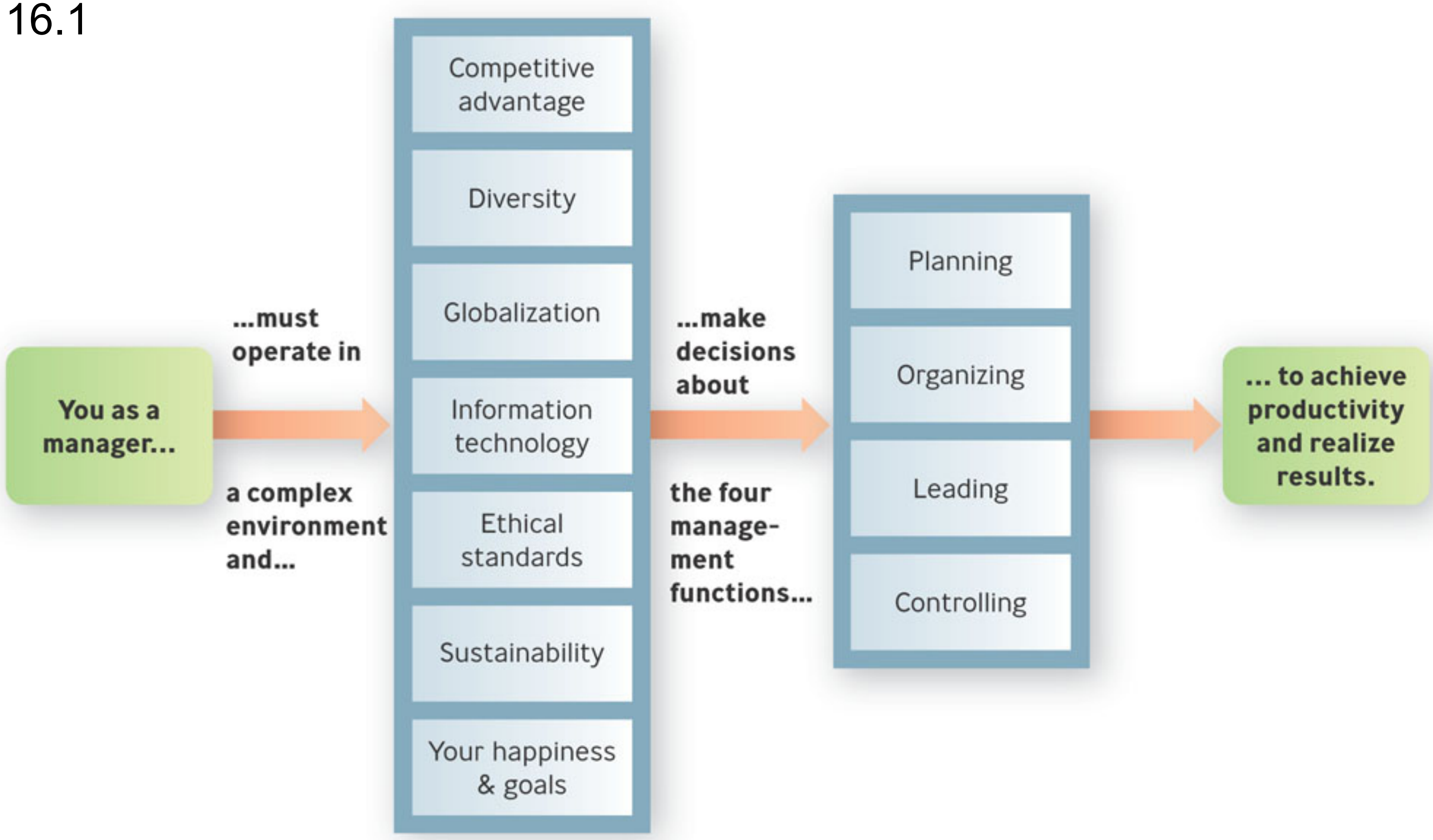
16.7 What are the keys to successful control, and what are the barriers to control success?

Managing for Productivity

- **Productivity**
  - outputs divided by inputs where: outputs are the goods and services produced, and inputs are labor, capital, materials, and energy

Managing for Productivity and Results

Figure 16.1



The Role of Information Technology

- **Enterprise resource planning (ERP)**
  - software systems, information systems for integrating virtually all aspects of a business, helping managers stay on top of the latest developments.

Control: When Managers Monitor Performance

- **Controlling**
  - defined as monitoring performance, comparing it with goals, and taking corrective action as needed

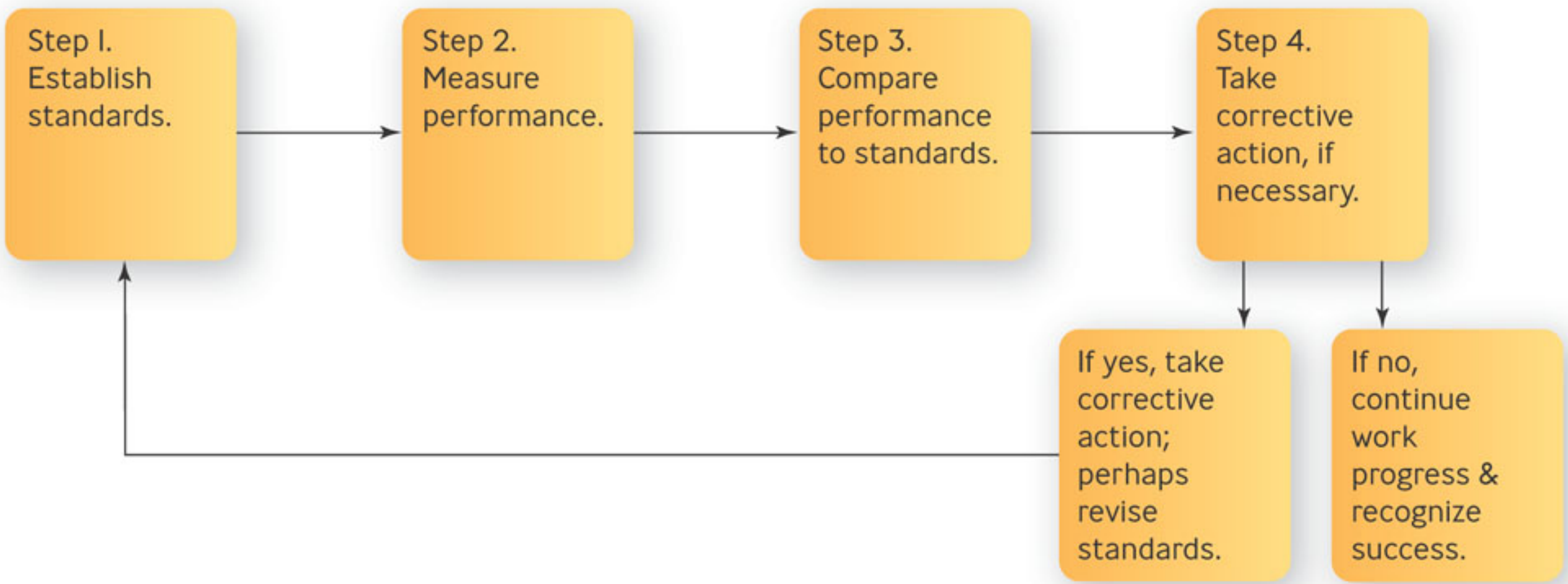
Figure 16.2 Controlling for Productivity

Why Is Control Needed?

1. To adapt to change & uncertainty
2. To discover irregularities & errors
3. To reduce costs, increase productivity, or add value
4. To detect opportunities
5. To deal with complexity
6. To decentralize decision making & facilitate teamwork

Steps in the Control Process

Figure 16.4



Steps in the Control Process

1. **Establish standards**
   - performance standard is the desired performance level for a given goal
   - best measured when they can be made quantifiable
2. **Measure performance**
   - usually obtained from written reports, oral reports, and personal observations

Steps in the Control Process

3. Compare performance to standards

- Management by exception – control principle that says managers should be informed of a situation only if data show a significant deviation from standards

Steps in the Control Process

4. Take corrective action if necessary

- Make no changes
- Recognize and reinforce positive performance
- Take action to correct negative performance

Question?

A UPS driver fails to perform according to the standards set for the route and traffic conditions. A supervisor rides along and gives suggestions for improvement. This is the _____________ stage of the control process.

A. Compare performance to standards
B. Establish standards
C. Take corrective action
D. Measure performance

Levels of Control

- **Strategic control**
  - monitoring performance to ensure that strategic plans are being implemented and taking corrective action as needed
- **Tactical control**
  - monitoring performance to ensure that tactical plans - those at the divisional or departmental level - are being implemented

Levels of Control

- **Operational control**
  - monitoring performance to ensure that operational plans - day-to-day goals - are being implemented and taking corrective action as needed

Six Areas of Control

- Physical
- Human resources
- Informational
- Financial
- Structural
- Cultural

Question?

A drug test employed by an organization in its hiring process is an example of a(n) ________ resource control.

A. Physical
B. Human
C. Financial
D. Informational

Structural Area

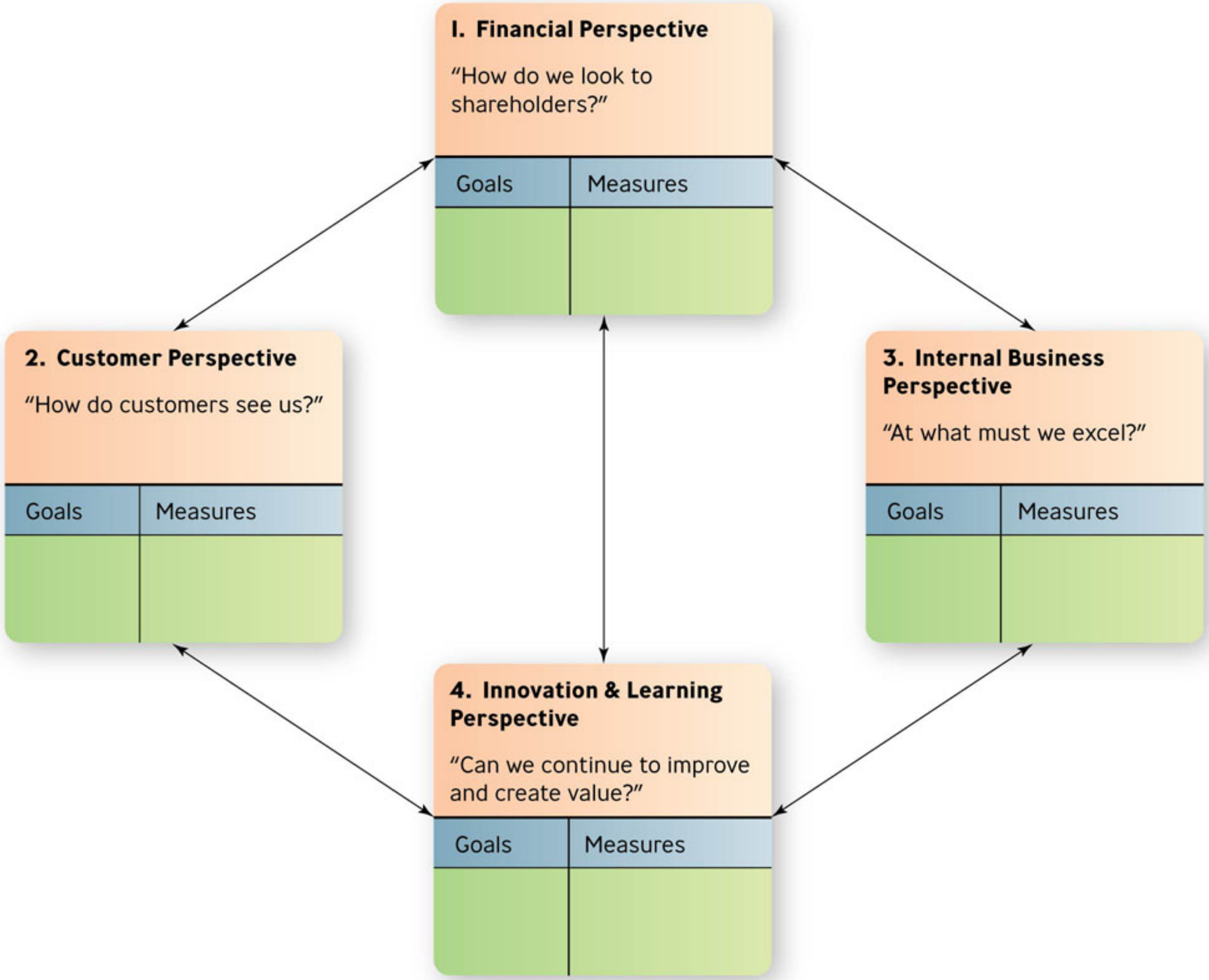
- **Bureaucratic control**
  - an approach to organizational control that is characterized by use of rules, regulations, and formal authority to guide performance
- **Decentralized control**
  - an approach to organizational control that is characterized by informal and organic structural arrangements

The Balanced Scoreboard

- **Balanced scoreboard**
  - gives top managers a fast but comprehensive view of the organization via four indicators: (1) customer satisfaction, (2) internal processes, (3) innovation and improvement activities and, (4) financial measures

The Balanced Scorecard: Four Perspectives

Figure 16.5



The Balanced Scorecard: Four Perspectives

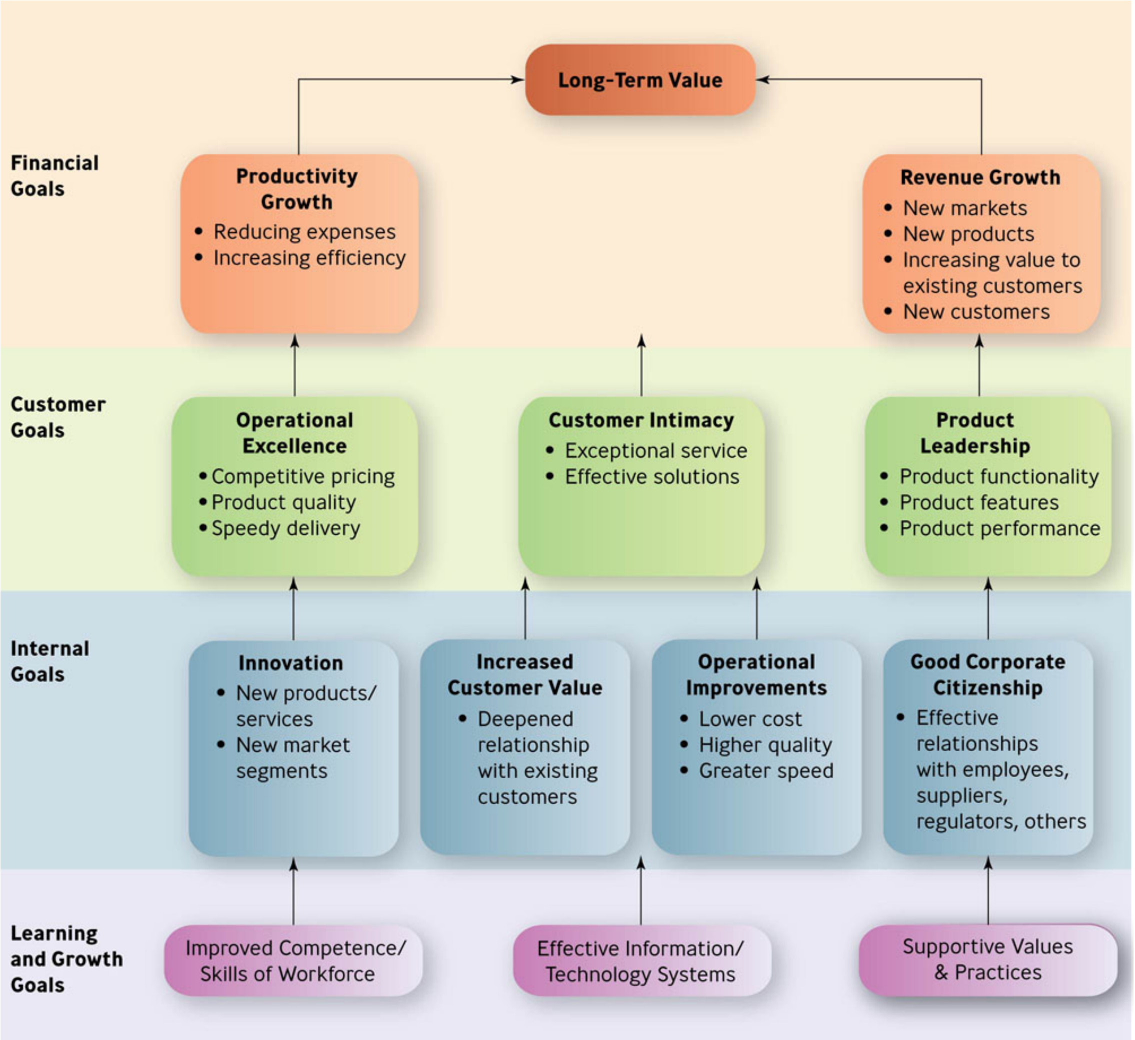
- **Financial**
  - profitability, growth, shareholder values
- **Customer**
  - priority is taking care of the customer
- **Internal business**
  - quality, employee skills, and productivity
- **Innovation & learning**
  - learning and growth of employees

The Visual Representation of a Balanced Scorecard

- **Strategy map**
  - visual representation of the four perspectives of the balanced scorecard that enables managers to communicate their goals so that everyone in the company can understand how their jobs are linked to the overall objectives of the organization

The Strategy Map

Figure 16.6



Why Measure-Managed Firms Succeed

- Top executives agree on strategy
- Communication is clear
- There is better focus and alignment
- The organizational culture emphasizes teamwork and allows risk taking

Barriers to Effective Measurement

- Objectives are fuzzy
- Managers put too much trust in informal feedback systems
- Employees resist new measurement systems
- Companies focus too much on measuring activities instead of results

Question?

Jeff's sales goal was to "improve sales". Which barrier to measurement is this?

A. Objectives are fuzzy
B. Managers put too much trust in informal feedback systems
C. Employees resist new measurement systems
D. Companies focus too much on measuring activities

Financial Tools for Control

- **Budget**
  - formal financial projection
- **Incremental budgeting**
  - allocates increased or decreased funds to a department by using the last budget period as a reference point
  - only incremental changes in the budget request are reviewed

Types of Budgets

Table 16.1

Type of Budget	Description
Cash or cashflow budget	Forecasts all sources of cash income and cash expenditures for daily, weekly, or monthly period
Capital expenditures budget	Anticipates investments in major assets such as land, buildings, and major equipment
Sales or revenue budget	Projects future sales, often by month, sales area, or product
Expense budget	Projects expenses (costs) for given activity for given period
Financial budget	Projects organization's source of cash and how it plans to spend it in the forthcoming period
Operating budget	Projects what an organization will create in goods or services, what financial resources are needed, and what income is expected
Nonmonetary budget	Deals with units other than dollars, such as hours of labor or office square footage

Fixed versus Variable Budgets

- **Fixed budgets**
  - resources are allocated on a single estimate of costs

- **Variable budgets**
  - resources are varied in proportion with various levels of activity

Financial Statements

- **Balanced sheet**
  - summarizes an organization’s overall financial worth – assets and liabilities - at a specific point in time
- **Income statement**
  - summarizes an organization’s financial results – revenues and expenses - over specified period of time

Ratio Analysis

- **Liquidity ratios**
  - indicate how easily a firm's assets can be converted to cash
- **Debt management ratios**
  - degree to which a firm can meet it's long-term financial obligations
- **Return ratios**
  - how effective management is generating a return or profit

Audits

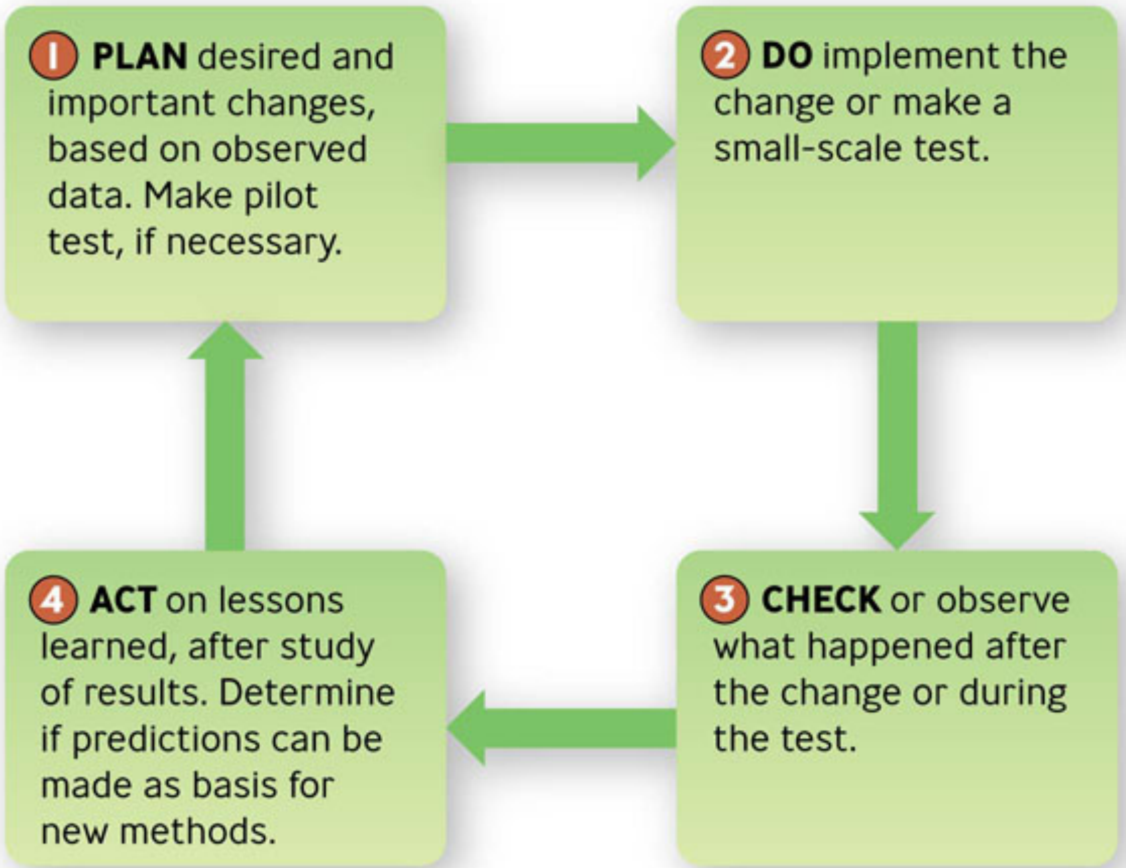
- **Audit**
  - formal verification of an organization's financial and operational systems
- **External** – performed by outside experts
- **Internal** – performed by organization's own professional staff

Deming Management

1. Quality should be aimed at the needs of the consumer
2. Companies should aim at improving the system, not blaming workers
3. Improved quality leads to increased market share, increased company prospects, & increased employment
4. Quality can be improved on the basis of hard data, using the PDCA cycle

The PDCA Cycle

Figure 16.7



Total Quality Management

- **Total Quality Management (TQM)**
  - a comprehensive approach - led by top management and supported throughout the organization - dedicated to continuous quality improvement, training, and customer satisfaction

Example: Viking Range Corporation

- Fred Carl found restaurant-style commercial stoves impractical for his own home kitchen, so he designed his own
- Production is set up so that if there is a problem everyone on the line is instantly aware of it, and the problem is solved right on the plant floor—so that customers are continuously supplied with elegant yet dependable stoves

Two Core Principles of TQM

1. **People orientation**
   - everyone involved in the organization should focus on delivering value to customers
2. **Improvement orientation**
   - everyone should work on continuously improving work processes

People Orientation

- Delivering customer value is most important
- People will focus on quality if given empowerment
- TQM requires training, teamwork, and cross-functional efforts

Improvement Orientation

- It's less expensive to do it right the first time
- It's better to do small improvements all the time
- Accurate standards must be followed to eliminate small variations
- There must be strong commitment from top management

Applying TQM to Services: The Rater Scale

- ***RATER* scale**
  - enables customers to rate the quality of a service along dimensions – reliability, assurance, tangibles, empathy, and responsiveness

Some TQM Techniques

- Benchmarking
- Outsourcing
- Reduced cycle time
- ISO 9000 and 14000 Series
- Statistical process control
- Six Sigma & Lean Six Sigma

Question?

In Harvey's job, he takes random samples of production runs to ascertain quality. His job involves:

A. Benchmarking
B. Statistical process control
C. Reduced cycle time
D. Feedforward control

The Keys to Successful Control Systems

1. They are strategic & results oriented
2. They are timely, accurate, & objective
3. They are realistic, positive, & understandable & encourage self-control
4. They are flexible

Barriers to Control Success

1. Too much control
2. Too little employee participation
3. Overemphasis on means instead of ends
4. Overemphasis on paperwork
5. Overemphasis on one instead of multiple approaches

Keys to Your Managerial Success

- Find your passion and follow it.
- Encourage self-discovery, and be realistic.
- Every situation is different, so be flexible
- Fine-tune your people skills

Keys to Your Managerial Success

- Learn how to develop leadership skills
- Treat people as if they matter, because they do
- Draw employees and peers into your management process
- Be flexible, keep your cool, and take yourself lightly