

## Chapter 18 Foundations of Control

### TRUE/FALSE QUESTIONS

#### WHAT IS CONTROL AND WHY IS IT IMPORTANT?

1. Control is the process of monitoring activities to ensure that they are being accomplished as planned.  
**(True; moderate; p. 526)**
2. The criterion that determines the effectiveness of a control system is how well it reduces unnecessary costs.  
**(False; moderate; p. 526)**
3. Clan control is found almost exclusively in small family-owned businesses, and is dependent upon the individual and the group to identify appropriate and expected behaviors and performance measures.  
**(False; difficult; p. 527)**
4. The value of the control function lies in its relation to organizational structure.  
**(False; moderate; p. 528)**
5. Managers need to control to protect the organization and its assets.  
**(True; moderate; p. 529)**

#### THE CONTROL PROCESS

6. The control process is a two-step process that compares actual performance against a standard and takes managerial action to correct deviations or inadequate standards.  
**(False; difficult; p. 529)**
7. Some control criteria, such as employee satisfaction, are applicable to any management situation.  
**(True; easy; p. 530)**
8. Deviations that exceed the acceptable range of variation become significant and need the manager's attention.  
**(True; moderate; p. 531)**
9. Understating sales is not nearly as troublesome as overstating.  
**(False; moderate; p. 532)**
10. In taking managerial actions, managers must correct actual performance, as it is the only choice.  
**(False; difficult; p. 532)**

11. Basic corrective action is aimed at correcting more generalized problems as quickly as possible, leaving more detailed action for later.

**(False; easy; p. 532)**

12. Effective managers analyze deviations and, when the benefits justify it, take the time to pinpoint and correct the causes of variance.

**(True; moderate; p. 532)**

### **CONTROLLING FOR ORGANIZATIONAL PERFORMANCE**

13. Performance is the end result of an activity.

**(True; easy; p. 534)**

14. The most frequently used organizational performance measures include liquidity, profitability, leverage, and activity ratios.

**(False; moderate; p. 535)**

15. What guides managerial decisions in designing strategies and work activities and in coordinating the work of employees is how well the organization meets its goals.

**(True; moderate; p. 536)**

### **TOOLS FOR CONTROLLING ORGANIZATIONAL PERFORMANCE**

16. The key to feedforward controls is taking action while the problem is occurring.

**(False; easy; p. 538)**

17. Feedforward provides managers with meaningful information on how effective their planning efforts were.

**(False; moderate; p. 538)**

18. Concurrent control prevents anticipated problems since it takes place before the actual activity.

**(False; easy; p. 538)**

19. Direct supervision is the best-known form of concurrent control.

**(True; easy; p. 538)**

20. Concurrent control relies on feedback.

**(False; easy; p. 538)**

21. Technical equipment cannot be programmed for concurrent controls.

**(False; moderate; p. 539)**

22. In feedback control, the control takes place after the activity is done.

**(True; easy; p. 539)**

23. An example of feedback control is management by walking around.  
**(False; moderate; p. 539)**

24. When organizations “manage” earnings, they “time” income and expenses to enhance current financial performance.  
**(True; moderate; p. 541)**

25. External controls have been enacted to address some of the problems that have occurred because of “managed” earnings.  
**(True; moderate; p. 542)**

26. The Sarbanes-Oxley Act requires more financial disclosure by organizations.  
**(True; moderate; p. 542)**

27. Managers can focus on measuring only one performance area because it presents them with the big picture.  
**(False; moderate; p. 542)**

#### **CONTEMPORARY ISSUES IN CONTROL**

28. Managers of foreign companies tend to be less controlled directly by the home office.  
**(True; moderate; p. 546; AACSB: Globalizations)**

29. Employers are allowed by law to tap your work telephone without your knowledge.  
**(True; moderate; p. 547; AACSB: Communication)**

30. The courts have ruled consistently that since the company owns your computer, managers have the right to view everything on it.  
**(True; moderate; p. 548)**

#### **MULTIPLE-CHOICE QUESTIONS**

For each of the following choose the answer that *most completely* answers the question.

#### **WHAT IS CONTROL AND WHY IS IT IMPORTANT?**

31. Managers can't really know whether their work units are working properly until they've evaluated what activities have been done \_\_\_\_\_.

- a. with those that remain
- b. and have compared actual performance to a desired standard
- c. and evaluate the performance of each of their employees
- d. successfully

**(b; easy; p. 526)**

32. Market control relies upon \_\_\_\_\_.
- a. market forces to set standards used in the control system
  - b. government regulators to set standards that guarantee fair competition
  - c. establishing and maintaining dominant market share
  - d. traditions and beliefs

**(a; moderate; p. 527)**

33. Market control is an approach that emphasizes the use of external market mechanisms, such as \_\_\_\_\_.
- a. price competition
  - b. relative market share
  - c. administrative procedures
  - d. traditions

**(b; moderate; p. 527)**

34. Bureaucratic control relies upon \_\_\_\_\_.
- a. administrative rules and regulations
  - b. managerial autonomy
  - c. shared values
  - d. units acting as individual profit centers

**(a; easy; p. 527)**

35. Under clan control, employee behaviors are regulated by \_\_\_\_\_.
- a. peer pressure
  - b. shared values and norms
  - c. brainwashing
  - d. strict hierarchical mechanisms

**(b; moderate; p. 527)**

36. What is the final step in the management process?
- a. organizing
  - b. planning
  - c. controlling
  - d. leading

**(c; moderate; p. 528)**

37. Many managers are tempted to do things themselves and avoid \_\_\_\_\_.
- a. controlling
  - b. empowering
  - c. leading
  - d. planning

**(b; difficult; p. 528)**

## THE CONTROL PROCESS

38. The control process assumes that \_\_\_\_\_.
- a. employees require constant direction from management
  - b. performance standards must be created
  - c. performance standards are already in place
  - d. employee monitoring costs are part and parcel of doing business

**(c; moderate; p. 529)**

39. The first step in the control process is \_\_\_\_\_.
- a. setting standards
  - b. measuring performance
  - c. comparing performance against expectations
  - d. taking managerial action

**(b; moderate; p. 530)**

40. What common source of information for measuring performance has the disadvantages of being subject to personal biases, time consuming, and obtrusive?
- a. oral reports
  - b. personal observations
  - c. statistical reports
  - d. written reports

**(b; moderate; p. 539)**

41. What common source of information for measuring performance has the advantages of being easy to visualize and effective for showing relationships?
- a. oral reports
  - b. personal observations
  - c. statistical reports
  - d. written reports

**(c; moderate; p. 539)**

42. What common source of information for measuring performance has the disadvantage of being provided with filtered information that can't be documented?
- a. oral reports
  - b. personal observations
  - c. statistical reports
  - d. written reports

**(a; moderate; p. 539)**

43. What common source of information for measuring performance has the advantages of being comprehensive, formal, and easy to file and retrieve?

- a. oral reports
- b. personal observations
- c. statistical reports
- d. written reports

**(d; moderate; p. 539)**

44. Some control criteria need to recognize \_\_\_\_\_.

- a. employees' rights to privacy
- b. the costs of monitoring and measuring performance
- c. the diversity of activities that managers do
- d. and reward exceptional employee performance

**(c; moderate; p. 530)**

45. When a performance indicator can't be stated in quantifiable terms, managers should \_\_\_\_\_.

- a. use subjective measures
- b. use objective measures
- c. ignore the control function
- d. have no standards at all

**(a; moderate; p. 531)**

46. What is defined as the acceptable parameters of variance between actual performance and the standard?

- a. basic corrective action
- b. performance
- c. productivity
- d. range of variation

**(d; easy; p. 531)**

47. In the third and final step in the control process, managers can choose between \_\_\_\_\_ possible courses of action in taking managerial action.

- a. two
- b. three
- c. four
- d. five

**(b; moderate; p. 532)**

48. What corrects problems at once to get performance back on track?

- a. basic corrective action
- b. immediate corrective action
- c. range of variation
- d. standard revision

**(b; moderate; p. 532)**

49. If employees or managers don't meet the standard, the first thing they're likely to accuse is \_\_\_\_\_.

- a. the standard
- b. their coworkers
- c. the organization
- d. their performance

**(a; moderate; p. 533)**

50. When should a manager's course of action be to do nothing?

- a. if the cause of the variation has been identified
- b. if the standard is acceptable
- c. if the standard is not acceptable
- d. if the variance is acceptable

**(d; moderate; p. 534)**

51. When should the manager's course of action be to revise the standard?

- a. if the cause of the variation has been identified
- b. if the standard is acceptable
- c. if the standard is not acceptable
- d. if the variance is acceptable

**(c; moderate; p. 534)**

#### **CONTROLLING FOR ORGANIZATIONAL PERFORMANCE**

52. The accumulated end results of all the organization's work activities are called \_\_\_\_\_.

- a. organizational performance
- b. organizational planning
- c. environmental scanning
- d. scenario planning

**(a; moderate; p. 534)**

53. \_\_\_\_\_ is the overall output of goods or services produced divided by the inputs needed to generate that output.

- a. Factoring
- b. Forfeiting
- c. Correlation
- d. Productivity

**(d; moderate; p. 535)**

54. \_\_\_\_\_ is measured by the sales revenue an organization receives when goods or services are sold.

- a. Input
- b. Output
- c. Quality
- d. Effectiveness

**(b; easy; p. 535)**

55. \_\_\_\_\_ is measured by the costs of acquiring and transforming the organizational resources into the outputs.

- a. Input
- b. Quality
- c. Effectiveness
- d. Efficiency

**(a; easy; p. 535)**

56. The easiest way to increase the ratio of outputs to inputs would be to \_\_\_\_\_ of the outputs.

- a. decrease the selling price of outputs
- b. increase the selling price of outputs
- c. increase the cost of the input
- d. hire additional employees

**(b; moderate; p. 535)**

57. In order to increase the ratio of outputs to inputs, a manager would have to \_\_\_\_\_.

- a. decrease the selling price
- b. increase productivity
- c. increase the cost of the input
- d. hire additional employees

**(b; easy; p. 535)**

58. \_\_\_\_\_ is a measure of how appropriate organizational goals are and how well an organization is achieving those goals.

- a. Situational effectiveness
- b. Organizational effectiveness
- c. Competitor analysis
- d. Environmental scanning

**(b; moderate; pp. 535-536)**

59. Which of the following models of organizational effectiveness proposes that effectiveness is measured by the organization's ability to exploit its environment in acquiring scarce and valued resources?

- a. systems resource
- b. process
- c. multiple constituencies
- d. single-criteria

**(a; moderate; p. 536)**



60. The \_\_\_\_\_ model emphasizes the transformation processes of the organization and how well the organization converts inputs into desired outputs.

- a. systems resource
- b. process
- c. multiple constituencies
- d. single-criteria

**(b; moderate; p. 536)**

61. Which of the following models of organizational effectiveness says that several different effectiveness measures should be used, reflecting the different criteria of the organization's constituencies?

- a. systems resource
- b. process
- c. multiple constituencies
- d. single-criteria

**(c; moderate; p. 536)**

62. *Fortune's* Top Performing Companies of the *Fortune* 500 are determined by \_\_\_\_\_.

- a. customer service
- b. employee satisfaction
- c. financial results
- d. product quality

**(c; moderate; p. 536)**

63. *Fortune's* 100 Best Companies to Work For are chosen by answers given by thousands of randomly selected employees on a questionnaire called the \_\_\_\_\_.

- a. American Customer Satisfaction Index (ASCI)
- b. Kiersey Temperament Sorter
- c. Economic Analysis Survey
- d. Great Place to Work® Trust Index®

**(d; easy; p. 536)**

64. The \_\_\_\_\_ measures customer satisfaction with the quality of goods and services available to household consumers in the United States and then links the results to financial returns.

- a. American Customer Satisfaction Index (ASCI)
- b. Kiersey Temperament Sorter
- c. Economic Analysis Survey
- d. Great Place to Work® Trust Index®

**(a; moderate; pp. 536-537)**

## TOOLS FOR CONTROLLING ORGANIZATIONAL PERFORMANCE

65. Applebee's philosophy is \_\_\_\_\_.

- a. slower is better
- b. faster is better
- c. colorful is better
- d. more is better

**(b; moderate; p. 537)**

66. What is the most desirable type of control that prevents anticipated problems?

- a. feedforward control
- b. concurrent control
- c. feedback control
- d. fast-forward control

**(a; easy; p. 538)**

67. \_\_\_\_\_ is a term used to describe when a manager is out in the work area interacting directly with employees.

- a. Concurrent control
- b. Direct interaction
- c. Management by walking around
- d. Work area management

**(c; easy; p. 538)**

68. Which of the following is a traditional financial control measure that managers might employ in the monitoring and measuring of organizational performance?

- a. ratio analysis
- b. economic value added
- c. ethical analysis
- d. market value added

**(a; moderate; p. 540)**

69. The \_\_\_\_\_ ratios measure an organization's ability to meet its current debt obligations.

- a. liquidity
- b. leverage
- c. conformance
- d. activity

**(a; moderate; p. 540)**

70. Which of the following ratios examines the organization's use of debt to finance its assets and its ability to meet the interest payments on the debt?

- a. liquidity ratios
- b. leverage ratios
- c. conformance ratios
- d. activity ratios

**(b; moderate; p. 540)**

71. The \_\_\_\_\_ ratios measure how efficiently the firm is using its assets.

- a. liquidity
- b. leverage
- c. conformance
- d. activity

**(d; moderate; p. 540)**

72. Which of the following ratios measures how efficiently and effectively the firm is using its assets to generate profits?

- a. liquidity ratios
- b. leverage ratios
- c. conformance ratios
- d. profitability ratios

**(d; moderate; p. 540)**

73. \_\_\_\_\_ provide managers with quantitative standards against which to measure and compare resource allocation.

- a. An organization chart
- b. Reengineering
- c. TQM
- d. A budget

**(d; moderate; p. 541)**

74. The fundamental concept behind which of the following two financial tools is that companies are supposed to take in capital from investors and make it worth more?

- a. principle value added and economic value added
- b. economic value added and real value added
- c. economic value added and market value added
- d. market value added and principle value added

**(c; difficult; p. 541)**

75. \_\_\_\_\_ is a tool for measuring corporate and divisional performance.

- a. Economic value added
- b. Market value added
- c. Principle value added
- d. Real value added

**(a; moderate; p. 541)**

76. Which of the following financial control measures is calculated by taking after-tax operating profit minus the total annual cost of capital?

- a. market value added
- b. principle value added
- c. economic value added
- d. real value added

**(c; difficult; p. 541)**

77. \_\_\_\_\_ is a measure of how much economic value is being created by what a company does with its assets, less any capital investments the company has made in its assets.

- a. Market value added
- b. Principle value added
- c. Economic value added
- d. Real value added

**(c; difficult; p. 541)**

78. Which of the following financial control measures adds a market dimension because it measures the stock market's estimate of the value of a firm's past and expected capital investment projects?

- a. economic value added
- b. market value added
- c. principle value added
- d. real value added

**(b; moderate; p. 541)**

79. A company's \_\_\_\_\_ is the value of all outstanding stock plus the company's debt.

- a. debt obligation
- b. capital outlay
- c. market value
- d. asset allocation

**(c; moderate; p. 541)**

80. If the company's market value is greater than all the capital invested in it, the company has a positive \_\_\_\_\_, indicating that managers have created wealth.

- a. market value added
- b. principle value added
- c. economic value added
- d. real value added

**(a; difficult; p. 541)**

81. Studies have shown that \_\_\_\_\_ is a predictor of \_\_\_\_\_.

- a. principle value added; economic value added
- b. economic value added; real value added
- c. economic value added; market value added
- d. market value added; principle value added

**(c; difficult; p. 541)**

82. The \_\_\_\_\_ approach to performance measurement was introduced as a way to evaluate organizational performance from more than just the financial perspective.

- a. market value added
- b. economic valued added
- c. balanced scorecard
- d. information control

**(c; moderate; p. 542)**

83. Which of the following is a performance measurement tool that looks at four areas that contribute to a company's performance?

- a. market value added
- b. economic valued added
- c. balanced scorecard
- d. information control

**(c; moderate; p. 542)**

84. The balanced scorecard is an approach that looks at four areas – financial, customer, internal processes, and \_\_\_\_\_ - that contribute to a company's performance.

- a. shareholder value
- b. people/innovation/growth assets
- c. managerial decision making
- d. debt

**(b; moderate; p. 542)**

85. Managers need \_\_\_\_\_ to monitor organizational performance and to control organizational activities.

- a. time
- b. control analysis systems
- c. data
- d. information

**(d; moderate; p. 543)**

86. A(n) \_\_\_\_\_ is defined as a system used to provide management with needed information on a regular basis.

- a. data entry system
- b. management information system
- c. expert system
- d. artificial intelligence system

**(b; easy; p. 543)**

87. Which of the following is not related to the meaning of management information systems?
- a. It's meant to provide managerial information on a regular basis.
  - b. To be considered a system, it needs to be on a computer and not manually regulated.
  - c. The word "system" implies order, arrangement, and purpose.
  - d. It provides data and information.

**(b; difficult; pp. 543-544)**

88. Which of following terms would be associated with data and not with information?
- a. analyzed
  - b. processed
  - c. ordered
  - d. raw

**(d; moderate; p. 544)**

89. When data are analyzed and processed, they become \_\_\_\_\_.
- a. a system
  - b. information
  - c. economically viable
  - d. factual

**(b; moderate; p. 544)**

90. \_\_\_\_\_ is the search for the best practices among competitors or noncompetitors that lead to their superior performance.
- a. Factoring
  - b. Correlating
  - c. Situating
  - d. Benchmarking

**(d; moderate; p. 545)**

91. The \_\_\_\_\_ is the standard of excellence against which to measure and compare.
- a. market leader
  - b. service excellence award
  - c. benchmark
  - d. Good Housekeeping Seal

**(c; moderate; p. 545)**

92. Research suggests that best practices frequently already exist within an organization, \_\_\_\_\_.
- a. but often go unidentified
  - b. but various managerial biases prevent them from being enacted
  - c. making formalized benchmarking a redundant and costly task
  - d. and are being used

**(a; moderate; p. 545)**

## CONTEMPORARY ISSUES IN CONTROL

93. The differences seen in organizational control systems of global organizations are primarily in the \_\_\_\_\_.

- a. measurement and corrective action steps of the control process
- b. measurement and comparison steps of the control process
- c. comparison step of the control process
- d. corrective action step of the control process

**(a; moderate; p. 546; AACSB: Globalizations)**

94. The laws in some countries can constrain organizational control by not allowing organizations to \_\_\_\_\_.

- a. bring in a new management team from outside the country
- b. hiring employees
- c. open facilities
- d. bring money into the country

**(a; moderate; p. 547; AACSB: Globalizations )**

95. A recent survey of U.S. employers said that \_\_\_\_\_ percent of employees look at nonwork-related Web sites while at work.

- a. 32
- b. 46
- c. 68
- d. 87

**(d; easy; p. 547)**

96. Managers monitor electronic mail because \_\_\_\_\_.

- a. they are nosy
- b. it helps ensure that company trade secrets are not being leaked
- c. they are not concerned about employee privacy
- d. they want to be sure that employees don't spread rumors about the company

**(b; moderate; p. 548)**

97. The Electronic Communications Privacy Act allows employers to monitor communications \_\_\_\_\_.

- a. when employees have been notified of the practice
- b. without notifying employees
- c. that take place online only
- d. only during official business hours

**(a; moderate; p. 548; AACSB: Communication)**

98. Up to \_\_\_\_\_ of all theft and fraud are committed by firm employees, not outsiders.
- a. 33 percent
  - b. 50 percent
  - c. 75 percent
  - d. 85 percent

**(d; moderate; p. 549)**

99. Clinical psychologists argue that employee theft \_\_\_\_\_.
- a. occurs primarily when there are poor management-labor relations
  - b. is a symptom of deeper control issues and is not the real problem
  - c. happens because many people can find ways to rationalize this behavior
  - d. reflects deep problems in the greater society

**(c; moderate; p. 549)**

100. The U.S. National Institute of Occupational Safety and Health says that each year, some \_\_\_\_\_ American workers are victims of some form of workplace violence.
- a. 35,000
  - b. 112,000
  - c. 678,000
  - d. 2,000,000

**(c; moderate; p. 550)**

101. Factors that have been found to be linked to workplace violence include \_\_\_\_\_.
- a. too much caffeine
  - b. employee stress
  - c. poor diet
  - d. poor personal hygiene

**(b; easy; p. 551)**

102. Experts have described dangerously dysfunctional work environments characterized by employee work driven by TNC as a primary contributor to workplace violence. TNC refers to \_\_\_\_\_.
- a. Time, Numbers, and Crises
  - b. Time, Number, and Chaos
  - c. Time, Neglect, and Crises
  - d. Time, Neglect, and Chaos

**(a; moderate; p. 551)**

103. The service profit chain is the service sequence from employees to customers to profit. According to this concept, the company's strategy and service delivery system determines \_\_\_\_\_.
- a. how committed the firm is to its customers
  - b. how the firm performs in the short run
  - c. employee retention
  - d. how employees service customers

**(d; moderate; p. 552)**



104. Corporate governance is \_\_\_\_\_.
- a. another name for executive management
  - b. a system used to protect the rights of shareholders
  - c. a term that refers to legal agreements made between two or more partner firms
  - d. primarily a problem facing U.S. firms

**(b; easy; p. 553)**

105. Two areas in which the corporate governance is being reformed are the role of boards of directors and \_\_\_\_\_.
- a. awarding of employee stock options
  - b. financial reporting
  - c. executive compensation
  - d. upper management

**(b; difficult; p. 553)**

106. As a result of the Sarbanes-Oxley Act, senior managers in U.S. firms are now required by law to \_\_\_\_\_.
- a. publicly report the awarding and exercise of their personal stock options
  - b. certify the company's financial results
  - c. submit quarterly financial statements to the SEC
  - d. have a moral board of directors

**(b; moderate; p. 555)**

## SCENARIOS AND QUESTIONS

For each of the following choose the answer that *most completely* answers the question.

### WHAT IS CONTROL AND WHY IS IT IMPORTANT?

#### Statco's Control

Statco, Inc., is a statistical software company based in Columbia, TN. This publicly traded firm has grown in a systematic fashion over its 25-year existence and now claims more than 12,000 employees worldwide. As it has grown, the company has adopted a hierarchical structure, which emphasizes organizational authority. Management relies heavily on administrative rules, regulations, and policies in order to meet its goals. However, the company has struggled to meet projected revenues for each of the past 10 quarters. While it is true that world financial markets have been in a free-fall over the past 3 years, demand for the firm's products has typically been fairly recession-proof in the past. The board of directors is growing increasingly impatient with the management team. The firm's president, Susan Wamerdam is concerned that recent performance indicates that management has lost control of the workforce. She has hired Mark Adams, an expert in control system design, to evaluate Statco, Inc., and offer suggestions to improve the firm's performance.

107. Susan asks how management will know whether the new control system is working. Mark tells Susan that final judgments regarding the effectiveness of a control system rests upon \_\_\_\_\_.

- a. how well managers buy in to the new system
- b. how well employees adhere to controls put in place
- c. how well it facilitates goal achievement
- d. the amount of thought given to setting standards in the first place

**(c; moderate; p. 526)**

108. Statco's traditional approach to control system design could best be described as \_\_\_\_\_.

- a. market control
- b. bureaucratic control
- c. clan control
- d. mind control

**(b; moderate; p. 527)**

109. Mark suggests that Statco's approach to control should place greater emphasis on the use of external market mechanisms, such as \_\_\_\_\_.

- a. currency exchange rates
- b. administrative policies
- c. shared values
- d. rituals

**(a; moderate; p. 527)**

110. Mark suggests to Susan that each division of the company should be turned into a profit center and be evaluated by the percentage of total corporate profits each contributes. This approach is most representative of what control system design approach?
- a. market control
  - b. bureaucratic control
  - c. clan control
  - d. financial control
- (a; difficult; p. 527)**

## THE CONTROL PROCESS

### Statco's Control

Statco, Inc., is a statistical software company based in Columbia, TN. This publicly traded firm has grown in a systematic fashion over its 25-year existence and now claims more than 12,000 employees worldwide. As it has grown, the company has adopted a hierarchical structure, which emphasizes organizational authority. Management relies heavily on administrative rules, regulations, and policies in order to meet its goals. However, the company has struggled to meet projected revenues for each of the past 10 quarters. While it is true that world financial markets have been in a free-fall over the past 3 years, demand for the firm's products has typically been fairly recession-proof in the past. The board of directors is growing increasingly impatient with the management team. The firm's president, Susan Wamerdam is concerned that recent performance indicates that management has lost control of the workforce. She has hired Mark Adams, an expert in control system design, to evaluate Statco, Inc., and offer suggestions to improve the firm's performance.

111. Mark asks Susan how management measures organizational performance. Susan states that they rely mainly on statistical reports, but also draw inferences from qualitative oral and written reports. Mark responds that, for most organizations and managers, using a combination of approaches \_\_\_\_\_.
- a. increases "noise" in the control system
  - b. increases the probability of getting reliable information
  - c. indicates that management is overly cautious
  - d. is an indicator of managerial indecisiveness

**(b; moderate; p. 530)**

112. Mark is adamant in telling Susan that what management measures is much more critical to the control process than how it is measured. Susan asks why Mark feels so strongly about this. Mark responds that what the organization measures \_\_\_\_\_.
- a. determines largely how well the organization performs
  - b. determines what people in the organization will strive to excel at
  - c. plays a large role in employee satisfaction and retention
  - d. determines organizational inputs

**(b; easy; p. 530)**

113. After clearing up questions regarding measurement issues, Mark tells Susan that the next step in the control process is \_\_\_\_\_.

- a. taking managerial action
- b. revising performance standards
- c. comparing performance to standards
- d. establishing standards of performance

**(c; moderate; p. 531)**

114. Susan asks Mark whether, after the second step has been taken, any further steps are necessary. Mark responds, “\_\_\_\_\_.”

- a. no; the control process is a two-step process
- b. yes; the third step is to take managerial action
- c. yes, but only if performance remains unsteady
- d. yes; the third step is to compare performance to standards

**(b; moderate; p. 532)**

115. If sales goals are not met, one option for Statco, Inc., would be to take managerial action. For example, Mark suggests that management might look \_\_\_\_\_.

- a. at industry standards
- b. to redesign the sales compensation plan
- c. to implement a benchmarking initiative
- d. adjust controls for cross-cultural differences

**(b; difficult; p. 532)**

116. Susan has just gotten out of a rough meeting with the board. She is looking to take immediate corrective action by letting a few heads roll in the sales department. She hopes that such a drastic move might light a fire under the remaining sales force. Mark cautions that Statco’s sales management has been perpetually putting out fires over the past 3 years and that it might be wiser to take basic corrective action. Susan asks Mark what he means. Mark explains that basic corrective action \_\_\_\_\_.

- a. involves accepting the way things are
- b. looks at how and why performance has deviated
- c. corrects problems at once to get performance back on track
- d. involves revising company standards

**(b; moderate; p. 532)**

## CONTROLLING FOR ORGANIZATIONAL PERFORMANCE

### The Industry Leader (Scenario)

Frank, the new CEO for First Fidelity, is working hard to turn around the formerly successful real estate business. His goal, once again, is to make First Fidelity a leader in the industry. Frank is currently at a meeting with senior officers and is informing them about measuring the company's performance.

117. Before he begins his discussion, Frank defines \_\_\_\_\_ as the accumulated end results of all the organization's work processes and activities.
- organizational planning
  - environmental scanning
  - organizational performance
  - scenario planning

**(c; moderate; p. 534)**

118. Frank states that the systems resource model of organizational effectiveness emphasizes \_\_\_\_\_.
- the transformation processes of the organization and how well the organization converts inputs into desired outputs
  - the systematic management of internal firm resources
  - the organization's ability to exploit its environment in acquiring scarce resources
  - that several different effectiveness measures should be used, reflecting the different criteria of the organization's constituencies

**(c; moderate; p. 536)**

119. Seth, a senior staff member at the meeting, asks whether the process model of organizational effectiveness might be more appropriate for First Fidelity. Seth explains that the process model emphasizes \_\_\_\_\_.
- how well the organization transforms inputs into outputs
  - the systematic management of internal firm resources
  - the organization's ability to exploit its environment in acquiring scarce resources
  - that several different effectiveness measures should be used, reflecting the different criteria of the organization's constituencies

**(a; moderate; p. 536)**

120. Frank suggests that the most ideal model of organizational effectiveness for First Fidelity would be one that reflected the different criteria of those parties which have a vested interest in the success of the organization. This model is commonly referred to as \_\_\_\_\_.
- the systems model
  - the process model
  - the stakeholder model
  - the multiple constituencies model

**(d; moderate; p. 536)**

## TOOLS FOR CONTROLLING ORGANIZATIONAL PERFORMANCE

### Financial Ratios (Scenario)

Jan was in a big hurry. She had just been given the assignment of reporting on the financial health of her company to the new divisional vice president. Donna, the new vice president, had asked Jan to work up several calculations to help her gain an understanding of the company's financial shape. Jan was working hard and had a big order to fill, one that could make or break her reputation with Donna. She quickly pulled out her old financial management textbook and turned to the chapter on financial ratios to help her answer the questions that were asked.

121. Donna asked Jan to provide her with an estimate of how efficiently the firm is using its assets. Therefore, Jan turned to the section in her textbook on \_\_\_\_\_ ratios.

- a. leverage
- b. activity
- c. profitability
- d. liquidity

**(b; difficult; p. 540)**

122. Donna also asked Jan to give her an idea of the organization's ability to meet the interest payments on its debt. Therefore, Jan looked to the section on \_\_\_\_\_ ratios.

- a. leverage
- b. activity
- c. profitability
- d. liquidity

**(a; difficult; p. 540)**

123. Donna was also interested in understanding the company's ability to meet short-term obligations, which meant that Jan had to calculate a(n) \_\_\_\_\_ ratio.

- a. leverage
- b. activity
- c. profitability
- d. liquidity

**(d; difficult; p. 540)**

124. Donna was also very interested in examining the organization's use of debt to finance its assets. Jan needed to calculate a(n) \_\_\_\_\_ ratio.

- a. leverage
- b. activity
- c. profitability
- d. equity

**(a; difficult; p. 540)**

125. Finally, as the hour dragged to midnight, Jan finished calculating the \_\_\_\_\_ ratio, because Donna wanted to know how efficiently and effectively management is using its assets to generate profits.
- a. leverage
  - b. activity
  - c. profitability
  - d. equity
- (c; difficult; p. 540)**

126. In addition to the traditional financial tools ratios that Jan calculated, Donna suggested that management needed to get a sense of how good a job the company is doing at creating value for the company's investors. She suggested that Donna should find out more about \_\_\_\_\_.
- a. market value added
  - b. liquidity ratios
  - c. equity ratios
  - d. traditional financial control measures
- (d; moderate; p. 541)**

127. Market value added differs from economic value added in that it \_\_\_\_\_.
- a. measures the market's estimate of past and future firm capital investments
  - b. measures corporate and divisional performance
  - c. incorporates the cost of capital
  - d. measures how much market value is being created by what the company does with its assets, less any capital investments the company has made in its assets
- (a; moderate; p. 541)**

### The Balanced Scorecard (Scenario)

Upon completing his industrial engineering degree, Evan Karnoupakis took a position as a manager with the Franklin Mint, a manufacturer of commemorative and collectible products. Bruce Benedict, Evan's boss and the VP of operations, has been asked by the organization's CEO to look into the balanced scorecard approach of performance management to see whether this would be appropriate for the organization. In turn, Mr. Benedict has asked Evan to look into balanced scorecard approaches and report back to him.

128. The intent of the balanced scorecard is to \_\_\_\_\_.
- a. search for the best practices among competitors only
  - b. emphasize that all four areas are important to the organization's success
  - c. identify which areas are most critical to the organization's success
  - d. create a benchmark for the company
- (b; moderate; p. 542)**

129. Evan reported that while the balanced scorecard approach to performance management makes good sense, \_\_\_\_\_.
- a. managers still tend to focus on areas that currently drive organizational success
  - b. it is not widely accepted as a management tool
  - c. studies have not consistently shown it to significantly improve firms' performance
  - d. successful organizations tend to focus exclusively on their customers

**(a; moderate; p. 542)**

Information Controls (Scenario)

Computing Solutions, Inc., is a high-tech consulting firm that focuses on helping companies to implement and adapt new technological developments in daily operations. Ted is the department head and needs to train John and Kelly, both project managers, on the proper applications of technological solutions for businesses.

130. Before beginning the training session, Ted informs both John and Kelly that \_\_\_\_\_ is a system used to provide management with needed information on a regular basis.
- a. information
  - b. data
  - c. a system
  - d. a management information system

**(d; moderate; p. 543; AACSB: Technology)**

131. Ted also informs John and Kelly that the term \_\_\_\_\_ in MIS implies order, arrangement, and purpose.
- a. information
  - b. data
  - c. system
  - d. category

**(c; moderate; p. 544; AACSB: Technology)**

132. During the training session, John is overwhelmed by the quantity of raw, unanalyzed facts that are being presented to him. These numbers and names can also be termed \_\_\_\_\_.
- a. information
  - b. data
  - c. a system
  - d. a management information system

**(b; moderate; p. 544; AACSB: Technology)**

133. When John organizes and processes the raw, unanalyzed facts, he will have \_\_\_\_\_.
- a. information
  - b. data
  - c. systems
  - d. a management information system

**(a; easy; p. 544; AACSB: Technology)**



## ESSAY QUESTIONS

### WHAT IS CONTROL AND WHY IS IT IMPORTANT?

134. Define controlling within an organization. In a brief essay, list and describe characteristics of the three approaches to designing control systems that have been identified. What determines the effectiveness of any control system?

#### **Answer**

Control is the process of monitoring, comparing, and correcting work performance. Three different types of control systems have been identified: market control, bureaucratic control, and clan control. Market control emphasizes the use of external market mechanisms, such as price competition and relative market share, to establish the standards used in the control system. Bureaucratic control systems emphasize organizational authority and rely on administrative rules, regulations, procedures, and policies. Under clan control, employee behaviors are regulated by shared values, norms, traditions, rituals, beliefs and other aspects of the organization's culture. Regardless of the design, the effectiveness of any control systems is determined by how well it facilitates goal achievement.

**(moderate; pp. 526-527)**

135. In a short essay, detail why control is important for managers. In what areas can the value of the control function be seen?

#### **Answer**

Control is important, therefore, because it's the only way managers know whether organizational goals are being met and if not, the reasons why. The value of the control function can be seen in three specific areas: planning, empowering employees, and protecting the workplace. As the final step in the management process, controlling provides the critical link back to planning. If managers didn't control, they'd have no way of knowing whether their goals and plans were on target and what future actions to take. The second reason controlling is important is because of employee empowerment. Many managers are reluctant to empower their employees because they fear employees will do something wrong for which the manager would be held responsible. Many managers are tempted to do things themselves and avoid empowering. But an effective control system can provide information and feedback on employee performance, thus reducing potential problems. The final reason that managers control is to protect the organization and its assets. Today's environment brings heightened threats from natural disasters, financial scandals, workplace violence, supply chain disruptions, security breaches, and even possible terrorist attacks. Managers must have plans in place to protect the organization's employees, facilities, data, and infrastructure. As many organizations discovered in the aftermath of catastrophes, such as 9/11 and Hurricane Katrina, having comprehensive controls and backup plans helps assure only minimal disruptions of their ongoing business operations.

**(moderate; pp. 528-529)**

## THE CONTROL PROCESS

136. In a short essay, list and briefly explain the steps, processes, and best practices managers typically utilize in the control process. Provide examples where appropriate.

### Answer

- a. Measuring—the first step in the control process is measuring. Most jobs and activities can be expressed in tangible and measurable terms. However, managers frequently use a variety of sources of information to measure actual performance, such as personal observation, statistical reports, oral reports, and written reports. For most managers, using a combination of approaches increases both the number of input sources and the probability of getting reliable information.
- b. Comparing—the second step involves determining the degree of variation between actual performance and the prespecified standard. Some variation is to be expected. However, it is important for managers to determine the acceptable range of variation.
- c. Taking managerial action—managers can choose among three possible courses of action: do nothing, correct the actual performance, or revise the standards. Examples of corrective actions might include changing strategy, structure, compensation plans, training programs, redesigning jobs, or firing employees. Revising standards is an appropriate response if the variance was the result of unrealistic expectations. However, revising standards downwards can be troublesome when an employee or work unit fall short of reaching a goal. If they don't meet the standard, their natural response is to attack the standard. If the manager believes the standard is fair, they should explain their position, reaffirm their desire for the employee or work unit to meet the standard, and then take necessary corrective action to turn that expectation into reality.

(moderate; pp. 530-532)

## CONTROLLING FOR ORGANIZATIONAL PERFORMANCE

137. In a short essay, describe the most frequently used organizational performance measures.

### Answer

- a. Organizational productivity—organizations strive to be productive. They want the most goods and services produced using the least amount of inputs. Output is measured by the sales revenue an organization receives when those goods and services are sold. Input is measured by the costs of acquiring and transforming the organizational resources into the outputs. It's management's job to increase this ratio. The easiest way to do this, of course, is to raise the selling price of the outputs, but this is a risky choice in today's competitive environment and it may, in fact, decrease the total output sold. The only other viable option, then, for increasing productivity is to decrease the input part of the ratio—that is, the organization's expenses. Doing so means being more efficient in performing the organization's work activities. Thus, organizational productivity becomes a measure of how efficiently employees do their work.
- b. Organizational effectiveness—organizational effectiveness is a measure of how appropriate organizational goals are and how well an organization is achieving those goals. It's a common performance measure used by managers. Other descriptions of organizational effectiveness have been suggested by management researchers. For instance, the systems resource model of organizational effectiveness proposes that effectiveness is measured by the organization's ability to exploit its environment in acquiring scarce and valued resources. The process model emphasizes the transformation processes of the organization and how well the organization converts inputs into desired outputs. And the multiple constituencies model says that several different effectiveness measures should be used, reflecting the different criteria of the organization's constituencies. Although each of these models is useful for measuring certain aspects of organizational effectiveness, the bottom line for managers continues to be how well the organization meets its goals. That's what guides managerial decisions in designing strategies and work activities and in coordinating the work of employees.
- c. Industry and company rankings—there's no shortage of different types of industry and company rankings. For instance, *Fortune's* Top Performing Companies of the *Fortune* 500 are determined by financial results including, for example, profits, return on revenue, and return on shareholder's equity; growth in profits for 1, 5, and 10 years; and revenues per employee, revenues per dollar of assets, and revenues per dollar of equity. *Fortune's* 100 Best Companies to Work For are chosen by answers given by thousands of randomly selected employees on a questionnaire called "The Great Place to Work® Trust Index®," on materials filled out by thousands of company managers including a corporate culture audit created by the Great Place to Work Institute, and on a human resources questionnaire designed by Hewitt Associates. *Industry Week's* Best Managed Plants are determined by organizational accomplishments and demonstrations of superior management skills in the areas of financial performance, innovation, leadership, globalization, alliances, and partnerships, employee benefits and education, and community involvement. The American Customer Satisfaction Index (ACSI) measures customer satisfaction with the quality of goods and services available to household consumers in the United States and then links the results to financial returns.

(difficult; pp. 535-536)

## TOOLS FOR CONTROLLING ORGANIZATIONAL PERFORMANCE

138. In a short essay, list and discuss three of the main performance control tools used for monitoring and measuring organizational performance.

### Answer

- a. Feedforward, concurrent, and feedback controls—the most desirable type of control—feedforward control—prevents anticipated problems since it takes place before the actual activity. Concurrent control, as its name implies, takes place while an activity is in progress. The most popular type of control relies on feedback. In feedback control, the control takes place after the activity is done.
- b. Financial controls—one of the primary purposes of every business firm is to earn a profit. In pursuit of this objective, managers need financial controls. They might perform several financial ratio tests to ensure that sufficient cash is available to pay ongoing expenses, that debt levels haven't become too high, or that assets are being used productively. Or, they might look at some newer financial control tools such as Market Value Added (MVA) to see if the company's market value is greater than the capital invested in it.
- c. Information controls—information can be critical to monitoring and measuring an organization's performance. Managers need the right information at the right time and in the right amount. Inaccurate, incomplete, excessive, or delayed information will seriously impede performance.
- d. Balanced scorecard—this is a performance measurement that was introduced as a way to evaluate organizational performance from more than just the financial perspective. The balanced scorecard is a performance measurement tool that looks at four areas—financial, customer, internal processes, and people/innovation/growth assets—that contribute to a company's performance. According to this approach, managers should develop goals in each of the four areas and measure to determine if these goals are being met.
- e. Benchmarking of best practices—benchmarking is the search for the best practices among competitors or noncompetitors that lead to their superior performance. At its most fundamental level, benchmarking means learning from others. As a tool for monitoring and measuring organizational performance, benchmarking can be used to help identify specific performance gaps and potential areas for improvement.

**(difficult; pp. 538-545)**

139. In a short essay, discuss the financial control measures of Economic Value Added (EVA) and Market Value Added (MVA).

**Answer**

- a. Economic Value Added (EVA) is a tool for measuring corporate and divisional performance. It's calculated by taking after-tax operating profit minus the total annual cost of capital. EVA is a measure of how much economic value is being created by what a company does with its assets, less any capital investments the company has made in its assets. As a performance control tool, EVA focuses managers' attention on earning a rate of return over and above the cost of capital. When EVA is used as a performance measure, employees soon learn that they can improve their organization's or business unit's EVA by earning more profit without using more capital, by using less capital, or by investing capital in high-return projects.
- b. Market Value Added (MVA) adds a market dimension because it measures the stock market's estimate of the value of a firm's past and expected capital investment projects. If the company's market value is greater than all the capital invested in it, it has a positive MVA, indicating that managers have created wealth. If the company's market value is less than all the capital invested in it, the MVA will be negative, indicating that managers have destroyed wealth. Studies have shown that EVA is a predictor of MVA and the consecutive years of positive EVA generally lead to a high MVA.

**(moderate; p. 541)**

## CONTEMPORARY ISSUES IN CONTROL

140. In a short essay, describe workplace privacy concerns for managers today. What are managers doing to control this issue?

### Answer

Employers can (and do), among other things, read your e-mail (even those marked “personal or confidential”), tap your telephone, monitor your work by computer, store and review computer files, monitor you in an employee bathroom or dressing room, and track your whereabouts in a company vehicle. Why do managers feel they must monitor what employees are doing? A big reason is that employees are hired to work, not to surf the Web checking stock prices, placing bets at online casinos, or shopping for presents for family or friends. Recreational on-the-job Web surfing is thought to cost billions of dollars in lost work productivity annually. Another reason that managers monitor employee e-mail and computer usage is that they don’t want to risk being sued for creating a hostile workplace environment because of offensive messages or an inappropriate image displayed on a coworker’s computer screen. Finally, managers want to ensure that company secrets aren’t being leaked. In addition to typical e-mail and computer usage, companies are beginning to monitor instant messaging and even banning camera phones in the office. Managers need to be certain that employees are not, even inadvertently, passing information on to others who could use that information to harm the company. Even with the workplace monitoring organizations can do, U.S. employees have some protection through the federal Electronic Communications Privacy Act, which prohibits unauthorized interception of electronic communication. Although this law gives employees some privacy protection, it doesn’t make workplace electronic monitoring illegal as employers are allowed to monitor communications for business reasons or when employees have been notified of the practice. Although employees may think that it’s unfair for a company to monitor their work electronically and to fire them for what they feel are minor distractions, the courts have ruled that since the computer belongs to the company, managers have a right to view everything on it. Because of the potentially serious costs and given the fact that many jobs now entail work that involves using a computer, many companies are developing and enforcing workplace monitoring policies. The responsibility for this falls on managers. It’s important to develop some type of viable workplace monitoring policy. What can managers do to maintain control but do so in a way that isn’t demeaning to employees? They should develop a clear and unambiguous electronic equipment and computer usage policy and make sure that every employee knows about it. Tell employees up front that any and all computer or other electronic equipment use may be monitored at any time and provide clear and specific guidelines as to what constitutes acceptable use of company e-mail systems and the Web.

**(difficult; pp. 547-549; AACSB: Communication)**

141. In a short essay, define corporate governance and describe some of the current trends in this area.

**Answer**

Corporate governance is the system used to govern a corporation so that the interests of corporate owners are protected. In response to several recent business scandals, two areas in which corporate governance is being reformed are the role of boards of directors and financial reporting. The cozy, quid pro quo composition of corporate boards, where board members are frequently peers of other corporations, is changing considerably. Since the passage of the Sarbanes–Oxley Act of 2002, demands on board members of publicly traded companies in the United States have increased considerably. To help boards do their job better, researchers at the Corporate Governance Center at Kennesaw State University developed 10 governance principles for U.S. public companies that have been endorsed by the Institute of Internal Auditors. In addition to expanding the role of boards of directors, the previously mentioned Sarbanes–Oxley Act also called for more disclosure and transparency of corporate financial information. In fact, senior managers in the United States are now required to certify their companies' financial results. These types of changes should lead to better information—that is, information that is more accurate and reflective of the firm's financial condition. In fulfilling their financial reporting responsibilities, managers might want to follow the principles also developed by the researchers at the Corporate Governance Center at Kennesaw State University.

**(moderate; pp. 553-555)**