Chapter 18 Foundations of Control

TRUE/FALSE QUESTIONS

A MANAGER’S DILEMMA

1. According to the boxed feature, “A Manager’s Dilemma,” the Chinese firm, the Haier Group, ranks fifth globally in PC sales.
   (False; moderate; p. 457)

WHAT IS CONTROL?

2. Control is the process of monitoring activities to ensure that they are being accomplished as planned.
   (True; moderate; p. 458)

3. The criterion that determines the effectiveness of a control system is how well it reduces unnecessary costs.
   (False; moderate; p. 458)

4. Market control is an approach to control that emphasizes the use of external market mechanisms to establish the standards used in the control system.
   (True; moderate; p. 458)

5. Bureaucratic control emphasizes adherence to organizational authority and relies primarily on unwritten social norms to control employee behavior.
   (False; moderate; p. 459)

6. 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. 459)

7. According to the text, the value of the control function lies in its relation to organizational structure.
   (False; moderate; p. 458)

THE CONTROL PROCESS

8. The control process is a two-step process that compares actual performance against a standard and taking managerial action to correct deviations or inadequate standards.
   (False; difficult; p. 460)

9. Some control criteria, such as employee retention, are applicable to any management situation.
   (True; easy; p. 461)

10. Basic corrective action is aimed at correcting more generalized problems as quickly as possible, leaving more detailed action for later.
    (False; easy; p. 463)
11. In taking managerial actions, managers choose between two possible courses of action: correcting actual performance and/or revising standards.
   (False; difficult; p. 463)

CONTROLLING FOR ORGANIZATIONAL PERFORMANCE

12. According to the textbook, productivity is the overall output of goods or services produced divided by the inputs needed to generate that output.
   (True; moderate; p. 465)

13. Organizational effectiveness is a measure of how appropriate organizational goals are and how well an organization is achieving those goals.
   (True; moderate; p. 466)

14. The multiple constituencies’ model of organizational effectiveness proposes that effectiveness is measured by the organization’s ability to exploit its environment in acquiring scarce and valued resources.
   (False; moderate; p. 466)

15. The systems resource model of organizational effectiveness says that several different effectiveness measures should be used, reflecting the different criteria of the organization’s constituencies.
   (False; moderate; p. 466)

16. The process model emphasizes the transformation processes of the organization and how well the organization converts inputs into desired outputs.
   (True; moderate; p. 466)

17. According to the textbook, Fortune’s Top Performing Companies of the Fortune 500 are determined by financial results.
   (True; moderate; p. 467)

TOOLS FOR MONITORING AND MEASURING ORGANIZATIONAL PERFORMANCE

18. Management, by walking around, is the best-known form of concurrent control.
   (True; easy; p. 469)

19. According to the textbook, studies have shown that market value added is a predictor of economic value added.
   (False; difficult; p. 471)

20. Market value added is a tool for measuring corporate and divisional performance.
   (False; difficult; p. 471)

21. Economic value added is calculated by taking after-tax operating profit minus the total annual cost of capital.
   (True; difficult; p. 471)

22. A company’s market value is the value of all outstanding stock plus the company’s debt.
   (True; moderate; p. 471)

23. A management information system is defined as a system used to provide management with needed information on a regular basis.

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(True; moderate; p. 473)
24. Raw is a term that would be associated with data and not with information.  
   (True; easy; p. 473)

25. When data are analyzed and processed, they become a system.  
   (False; moderate; p. 473)

26. The balanced scorecard approach to performance measurement was introduced as a way to evaluate organizational performance from more than just the financial perspective.  
   (True; moderate; p. 472)

CONTEMPORARY ISSUES IN CONTROL

28. According to the textbook, managers of foreign companies tend to be less controlled directly by the home office.  
   (True; moderate; p. 475)

29. Employers are allowed by law to tap your work telephone without your knowledge.  
   (True; moderate; p. 476)

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. 476)

MULTIPLE-CHOICE QUESTIONS

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

A MANAGER’S DILEMMA

31. According to the company profile in “A Manager’s Dilemma,” one of the key tools that Zhang Ruimin, the CEO of the Haier Group, plans to use in building his organization into a global brand is _____________.  
   a. competitor intelligence  
   b. market control  
   c. bureaucratic control  
   d. benchmarking  
   (d; moderate; p. 457)

WHAT IS CONTROL AND WHY IS IT IMPORTANT?

32. 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. none of the above  
   (b; easy; p. 458)
33. Market control is an approach that emphasizes the use of external market mechanisms, such as _____________.
   a. price competition
   b. market share
   c. stock price
   d. a and b  
   (d; moderate; p. 458)

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. 459)

35. 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. none of the above
   (a; moderate; p. 458)

36. 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. 459)

37. According to the textbook, the value of the control function lies in _________________.
   a. its relationship to planning
   b. empowering employees
   c. protecting the workplace
   d. all of the above
   (d; difficult; p. 459)

THE CONTROL PROCESS

38. According to the textbook, 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. 460)
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. 460)

40. According to the textbook, any comprehensive control system needs 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. 461)

41. 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. 462)

CONTROLLING FOR ORGANIZATIONAL PERFORMANCE

42. According to the textbook, the accumulated end results of all the organization’s work processes and activities are called _________________.
   a. organizational performance
   b. organizational planning
   c. environmental scanning
   d. scenario planning
   (a; moderate; p. 465)

43. According to the textbook, ________________ 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. 465)

44. ________________ 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. 465)

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45. ____________ 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. 465)

46. 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. 466)

47. 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. 466)

48. ____________ 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; p. 466)

49. 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. 466)

50. 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. 465)

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51. 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. 465)**

52. According to the textbook, 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. 465)**

53. 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
   b. Kiersey Temperament Sorter
   c. Economic Analysis Survey
   d. Great Place to Work Trust Index
   **(d; easy; p. 467)**

54. 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
   b. Kiersey Temperament Sorter
   c. Economic Analysis Survey
   d. Great Place to Work Trust Index
   **(a; moderate; p. 467)**

**TOOLS FOR MONITORING AND MEASURING ORGANIZATIONAL PERFORMANCE**

55. According to the textbook, Applebee’s philosophy is ____________.
   a. “slower is better”
   b. “faster is better”
   c. “colorful is better”
   d. “more is better”
   **(b; moderate; p. 468)**

56. According to the textbook, managers might use which of the following types of control tools for monitoring and measuring organizational performance?
   a. financial controls
   b. information controls
   c. balanced scorecard approach
   d. all of the above
   **(b; moderate; pp. 470-473)**

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57. Which of the following is mentioned in the textbook as a traditional financial control measure that managers might employ in the monitoring and measuring of organizational performance?
   a. ratio analysis
   b. analyze quarterly income statements
   c. ethical analysis
   d. a and b
   (d; moderate; p. 470)

58. Which of the following are mentioned in the textbook as ratios used to monitor and measure organizational performance?
   a. liquidity ratios
   b. leverage ratios
   c. activity ratios
   d. all of the above
   (d; moderate; p. 470)

59. The __________ ratios measure an organization’s ability to meet its current debt obligations.
   a. liquidity
   b. leverage
   c. conformance
   d. activity
   (a; moderate; p. 470)

60. Which of the following ratios examine 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. 470)

61. The __________ ratios measure how efficiently the firm is using its assets.
   a. liquidity
   b. leverage
   c. conformance
   d. activity
   (d; moderate; p. 470)

62. Which of the following ratios measure 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. 470)
63. According to the textbook, budgets also provide managers with ______________ standards against which to measure and compare resource consumption.
   a. qualitative
   b. quantitative
   c. correlation
   d. factored
   (b; moderate; p. 471)

64. ______________ provide(s) managers with quantitative standards against which to measure and compare resource allocation.
   a. Organization charts
   b. Reengineering
   c. TQM
   d. Budgets
   (d; moderate; p. 471)

65. 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. 471)

66. ______________ 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. 471)

67. 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. 471)

68. ______________ 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. 471)
69. 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. 471)

70. 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. 471)

71. 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. 471)

72. According to the textbook, 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. 471)

73. 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. 473)

74. 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; p. 473)

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75. Which of the following terms would be associated with data and not with information?
   a. analyzed
   b. processed
   c. ordered
   d. raw
   (d; moderate; p. 473)

76. When data are analyzed and processed, they become ________________.
   a. a system
   b. information
   c. economically viable
   d. factual
   (b; moderate; p. 473)

77. 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. 472)

78. 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. 472)

79. ________________ 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. 474)

80. 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 assets
   c. managerial decision making
   d. none of the above
   (b; moderate; p. 472)

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81. According to the textbook, managers need _______________ to monitor organizational performance and to control organizational activities.
   a. time
   b. control analysis systems
   c. data
   d. information
   (d; moderate; p. 470)

82. According to the textbook, 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. 472)

83. 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. a and b
   (a; moderate; p. 472)

CONTEMPORARY ISSUES IN CONTROL

84. 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. 475)

85. The Japanese retailer that owns 7-11 uses automated cash registers to ________________.
   a. record sales and keep track of inventory
   b. schedule tasks for store managers
   c. track manager’s use of built-in analytical graphs and forecasts.
   d. all of the above
   (d; moderate; p. 475)

86. According to the textbook, 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. layoff employees
   c. close facilities
   d. all of the above
   (d; moderate; p. 475)

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87. According to a statistic cited in your textbook, __________ of all companies with 1,000 or more employees use electronic systems to monitor employee behavior.
   a. 25 percent  
   b. 40 percent  
   c. 55 percent  
   d. 70 percent  
   (d; moderate; p. 476)

88. A recent survey cited in the textbook indicated that U.S. workers spend about an average of ________ hours per week looking nonwork-related Web sites.
   a. 5  
   b. 8  
   c. 12  
   d. 15  
   (b; easy; p. 476)

89. Managers monitor electronic mail because ______________.
   a. it helps protect the firm against racial or sexual harassment lawsuits  
   b. it helps ensure that company trade secrets are not being leaked  
   c. they are not concerned about employee privacy  
   d. a and b  
   (d; moderate; p. 476)

90. 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. 476)

91. According to your textbook, 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. 477)

92. According to the experts cited in the textbook, 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. 477)
93. According to statistics cited in the text, the National Institute of Occupational Safety and Health says that each week, an average of ____________ is assaulted at work.
   a. 5000 workers
   b. 12,000 workers
   c. 18,000 workers
   d. 24,000 workers
   (c; moderate; p. 478)

94. 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. 478)

95. 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. 478)

96. According to the textbook, 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 how ____________.
   a. committed the firm is to its customers
   b. the firm performs in the short run.
   c. employee retention
   d. employees service customers
   (d; moderate; p. 479)

97. 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. none of the above
   (b; difficult; p. 482)

98. 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. none of the above
   (b; moderate; p. 482)

99. Corporate governance is ________________.

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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

(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 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.

100. 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. 459)

101. Mark suggests that Statco’s approach to control should place greater emphasis on the use of external market mechanisms, for example ______________.
   a. currency exchange rates
   b. price competition
   c. relative market share
   d. all of the above
   
   (d; moderate; p. 458)

102. 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(es).
   a. market control
   b. bureaucratic control
   c. clan control
   d. a and b
   
   (a; difficult; pp. 458-459)

103. 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 ______________.

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a. how well manages 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. 459)

104. 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. none of the above

(b; difficult; p. 463)

105. 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. looks to address correct the source of the deviation
b. looks at how and why performance has deviated
c. a and b
d. none of the above

(c; moderate; p. 463)

THE CONTROL PROCESS

Statco 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.

106. Mark asks Susan how does management measure 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. 461)

107. 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 _______________.

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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. 461)

108. 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. 460)

109. Susan asks Mark whether after the second step has been taken, whether 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. 460)

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 is to, once again, 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.

110. Before he begins his discussion, Frank defines ______________ as the accumulated end results of all the organization’s work processes and activities.
   a. organizational planning
   b. environmental scanning
   c. organizational performance
   d. scenario planning
   (c; moderate; p. 465)

111. Bob, one of the senior managers, was confused as to why measuring organizational performance was important, as sales were increasing. Frank replied that it is management’s primary job to ____________.
   a. measure organizational performance
   b. to increase productivity
   c. decrease the costs of firm inputs
   d. increase the total output sold
   (b; moderate; p. 466)

112. Frank stated that the systems resource model of organizational effectiveness emphasizes ______________.
   a. how well the organization transforms inputs into outputs
   b. the systematic management of internal firm resources
   c. the organization’s ability to exploit its environment in acquiring scarce resources
   d. a and c

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113. Seth, a senior staff member at the meeting, asked whether the process model of organizational effectiveness might be more appropriate for First Fidelity. Seth explains that the process model emphasizes _______________.
   a. how well the organization transforms inputs into outputs
   b. the systematic management of internal firm resources
   c. the organization’s ability to exploit its environment in acquiring scarce resources
   d. a and c
   (a; moderate; p. 466)

114. 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. According to the textbook, this model is commonly referred to as _______________.
   a. the systems model
   b. the process model
   c. the stakeholder model
   d. the multiple constituencies model
   (d; moderate; p. 466)

TOOLS FOR MONITORING AND MEASURING 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 the new vice president. 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.

115. Donna asked Jan to provide her with an estimate of how efficiently the firm is using its assets. Therefore, Jan turned to the section on ______________ ratios.
   a. leverage
   b. activity
   c. profitability
   d. liquidity
   (b; difficult; p. 470)

116. 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. 470)
117. Donna was also interested in understanding the company’s ability to meet short-term obligations, which meant that Jan had to calculate a ____________ ratio.
   a. leverage  
   b. activity  
   c. profitability  
   d. liquidity  
   (d; difficult; p. 470)

118. 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. 470)

119. 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. 470)

120. 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. economic value added  
   c. equity ratios  
   d. a and b  
   (d; moderate; p. 471)

121. Market value added differs from economic value added by ____________.
   a. measuring the market’s estimate of past and future firm capital investments.  
   b. indicating whether managers have created/destroyed investor wealth  
   c. incorporating the cost of capital  
   d. a and b  
   (d; moderate; p. 471)

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.

122. 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
123. Ted also informs John and Kelly that the term ______________ in MIS implies order, arrangement, and purpose.
   a. information
   b. data
   c. system
   d. a management information system
   (c; moderate; p. 473)

124. 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. systems
   d. a management information system
   (b; moderate; p. 473)

125. 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. 473)

126. At the conclusion of the training session, John makes an off-handed comment critical of managements’ concerns over recreational on-the-job Web surfing. Ted tells John that this is no laughing matter and that such behavior costs U.S. firms _________ each year in wasted computer resources and lost productivity.
   a. trillions of dollars
   b. billions of dollars
   c. hundreds of millions of dollars
   d. one dollar
   (b; moderate; p. 473)

The Balanced Scorecard (Scenario)

Upon completing his industrial engineering, Evan Karnoupakis took a position as a manager with the Franklin Mint, a manufacturer of commemorative and collectible products. Evan’s boss, Bruce Benedict, is 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, Bruce Benedict has asked Evan to look into balanced scorecard approaches and report back to him.

127. Evan tells Bruce that the balanced scorecard approach looks at four areas—financial, customer, internal processes and ____________—that contribute to company performance.
a. external processes  
b. competitive responses  
c. growth assets  
d. none of the above  
(c; difficult; p. 472)

128. The intent of the balanced scorecard is to ______________.
   a. emphasize that there should be balance between all four areas  
   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. a and b  
(d; moderate; p. 472)

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 organization success  
   b. it is not widely accepted as a management tool  
   c. studies have not consistently shown it to significantly improve firm performance  
   d. successful organizations tend to focus exclusively on their customers  
(a; moderate; p. 472)

ESSAY QUESTIONS

WHAT IS CONTROL AND WHY IS IT IMPORTANT?

130. Define control 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 activities to ensure that they are being accomplished as planned and correcting for any significant deviations from organizational plans and goals. According to the textbook, the approaches to designing control systems are generally categorized into three approaches: 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 relies 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. 458-459)

THE CONTROL PROCESS

131. 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, manager frequently use a variety of sources of information to measure actual performance, such as personal observation, statistical reports, oral reports, and written

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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 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. 460-463)

CONTROLLING ORGANIZATIONAL PERFORMANCE

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

Answer

a. 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.

b. 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.

c. Balanced scorecard approach—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.

d. Benchmarking best practices approach—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. 470-474)

TOOLS FOR CONTROLLING ORGANIZATIONAL PERFORMANCE

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

Answer

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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. 471)

CONTEMPORARY ISSUES IN CONTROL

134. 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 rapidly changing is in 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, with new demands being placed on board members. Additionally, the Sarbanes-Oxley act has forced corporations to be more transparent and accountable to their shareholders. For example, senior managers of U.S. firms are now required by law to certify their companies’ financial results.

(moderate; pp. 481-482)