**Chapter 14**

**MANAGING CONTROL SYSTEMS, FINANCES, AND PEOPLE**

Chapter Outline

I. ORGANIZATIONAL AND FUNCTIONAL AREA CONTROL SYSTEMS

1. Organizational Systems Control
2. Functional Area/Department Control Systems

II. ESTABLISHING CONTROL SYSTEMS

1. The Control Systems Process
2. Control Frequency and Methods
3. III. FINANCIAL CONTROLS: THE MASTER BUDGETING PROCESS
4. Operating Budgets
5. Capital Expenditures Budget
6. Financial Budgets and Statements
7. Personal Finance
8. IV. MANAGING PEOPLE
9. Coaching
10. Management by Walking Around
11. Counseling
12. Disciplining

Changes From 5e to 6e Chapter 14

* Chapter 14 was Chapter 13 in the 5e, with the chapter title changed to Control Systems and Managing Finances and People.
* The chapter has been updated, and 95 percent of the references are new to this chapter.
* Learning Outcome 14–2 has been deleted for being less relevant.
* The subsection Functional Area/Department Control Systems has been consolidated and Exhibit 13–2 has been deleted.
* The sections Establishing Control Systems and Control Frequency and Methods have been shortened a little.
* The section Human Controls title has been changed to Managing People.
* The subsection Discipline now includes workplace deviance.

Lecture Outline

**Note:** The textbook supplements include a PowerPoint presentation for each chapter, which can be used rather than or in addition to this lecture outline.

1. ORGANIZATIONAL AND FUNCTIONAL AREA CONTROL SYSTEMS

As defined in Chapter 1, **controlling** is the process of establishing and implementing mechanisms to ensure that objectives are achieved.

1. **Organizational Systems Control**

|  |
| --- |
| Learning Outcome (LO) 14–1. List the four stages of the systems process and describe the type of control used at each stage.  The first stage of the systems process is inputs. Preliminary control is designed to anticipate and prevent possible input problems. The second stage is the transformation process. Concurrent control is action taken to ensure that standards are met as inputs are transformed into outputs. The third stage is outputs. Rework control is action taken to fix an output. The fourth stage is customer/stakeholder satisfaction. Damage control is action taken to minimize negative impacts on customers/stakeholders due to faulty outputs. During the four stages, feedback is used to improve upon the process to continually increase customer satisfaction. |

With multiple types of organizations and stakeholders, there is no universally accepted performance measure or control system; the control must fit the situation. Exhibit 14–1 illustrates the systems process, with appropriate types of control. The four different types of control needed at the different stages of the systems process are explained next.

|  |
| --- |
| WORK APPLICATION Example student answer  **14–1. Using Exhibit 14–1, identify the primary organizational inputs, transformation process, outputs, and customers of a firm you work for or have worked for. Also, identify the level of customer satisfaction.**  Last summer, I worked for a company that made corrugated cardboard boxes. The input was the wood pulp mix that the machine transformed into cardboard, and the output sold was cardboard boxes. The customers were primarily businesses that used the boxes to ship products in and U-Haul, who sold the boxes to renters of their trucks to pack in. Our company always received very good ratings from customers in terms of their satisfaction. |

1. **Preliminary Control (Inputs)**

**Preliminary control** is designed to anticipate and prevent possible problems. A major difference between successful and unsuccessful managers lies in their ability to anticipate and prevent problems rather than solving problems after they occur.

Planning and organizing are the keys to preliminary control, which is also called *feedforward control*. The organization’s mission and objectives guide the use of all organizational resources. Standing plans are designed to control employee behavior in recurring situations to prevent problems, and contingency plans tell employees what to do if problems occur.

A common preliminary control is preventive maintenance.

1. **Concurrent Control (Transformation Process)**

**Concurrent control** is action taken to ensure that standards are met as inputs are transformed into outputs. The key to success is quality control. Employees spend time checking quality during the transformation process.

1. **Rework Control (Outputs)**

**Rework control** is action taken to fix an output. Rework is necessary when preliminary and concurrent controls have failed. Most organizations inspect the final output before it is sold to the customer or sent as an input to other departments within the organization. Sometimes rework is not cost effective or possible, and outputs have to be accepted as is, discarded, or sold for salvage, which can be costly.

1. **Damage Control (Customer/Stakeholder Satisfaction)**

**Damage control** is action taken to minimize negative impacts on customers/stakeholders due to faulty outputs. Warranties, a form of damage control, require refunding the purchase price, fixing the product or reperforming the service (a form of rework), or replacing the product with a new one.

|  |
| --- |
| **Review Question (RQ) 14–1. Why is damage control important?**  Damage control is action taken to minimize negative impacts on customers/stakeholders due to faulty outputs. When a faulty output gets to the customer, damage control is needed. If you don’t use damage control, you will lose customers. |

|  |
| --- |
| WORK APPLICATION Example student answer  **14–2. Building on Work Application** 14–**1, give examples of preliminary, concurrent, rework, and damage controls for an organization you work for or have worked for.**  As a preliminary control, we would have to clean our work area regularly and follow safety procedures to prevent accidents. The quality-control supervisor checked our work in process as concurrent control. The boxes had to be cut for different sizes. If there was an error in size, it would be reworked later when a smaller size batch of boxes was being made. Being in production, we did not deal with damage control. However, I do recall hearing the plant manager yelling about having to take back an order from a customer because the size was wrong. This required extra shipping costs to take back the wrong ones and to ship the correct ones. |

|  |
| --- |
| APPLYING THE CONCEPT Answers  AC 14–1—Types of Control  c 1. Rework. The cone needs to be replaced to hold the ice cream.  a 2. Preliminary. The manager is planning for the next week on Friday.  d 3. Damage. The new shirt has been bought by the customer and most likely will be exchanged.  b 4. Concurrent. The monthly budget report is used during the budget period to control spending.  a 5. Preliminary. The coach is planning for the future (the big game on Sunday). |

1. **Feedback (continuous improvement)**

An important part of the systems process is the feedback loop, particularly from the customer and other stakeholders. The only way to continually increase customer satisfaction is to use feedback from the customer to continually improve the products.

|  |
| --- |
| **Communication Skills Question (CSQ) 14–1. Recall a personal event that you had to help conduct, such as a party, shower, or wedding. Identify preliminary, concurrent, rework, and damage controls, as well as feedback. What did you learn from the experience and the textbook discussion that can help you to plan and control better in the future?**  Answers will vary. |

1. **Focus on Preliminary and Concurrent Types of Control**

Remember that focusing on preliminary and concurrent controls cuts down on rework and damage. Relying on rework control is not effective because it is more costly to do things twice than to do them right the first time. The best solution is to prevent poor quality from happening in the first place. Doing so creates a win-win situation by minimizing warranty cost and maximizing customer satisfaction.

|  |
| --- |
| **RQ 14–2. Why should you focus on preliminary and concurrent types of control rather than rework and damage control?**  Preventing problems and catching them before they have negative effects on customers create a win-win situation by minimizing warranty cost and maximizing customer satisfaction. Relying on damage and rework control is not effective because it is more costly to do things twice than to do them right the first time. |

1. **Functional Area/Department Control Systems**

Recall from Chapters 1 and 7 that firms are commonly organized into four major functional departments: operations, marketing, human resources, and finance. Information is the fifth major functional area that may be a stand-alone department or may fall under the finance functional area. (((NOTE: 5e Exhibit 14–2 is not included in the new 6e, but you can use it if you want to.))

Although in most organizations the operations department is the only functional area that actually transforms the inputs into the outputs of goods and services (which are called *products*)that are sold to customers, all functional departments use the systems process.. Note that damage control with the customer is primarily the function of the marketing department. The other department outputs stay within the organization and go to stakeholders, not the customer; therefore, internal damage control is necessary when outputs are faulty.

|  |
| --- |
| **RQ 14–3. Who are the primary customers/stakeholders for the outputs of the operations, marketing, human resources, finance, and information functional areas/departments?**  The marketing department is the primary stakeholder for the operations department outputs. The customer gets the product outputs through the marketing department. The human resources and information (MIS) departments provide employees/information as its outputs to all departments as their inputs. The finance department provides budgeted funds, financial statements, and other reports as inputs to all departments and payments to stakeholders. |

|  |
| --- |
| WORK APPLICATION Example student answer  **14–3. Building on Work Applications** 14–**1 and** 14–**2 and using Exhibit 14–2, illustrate the systems process for a department you work for or have worked for within an organization. Be sure to give examples of preliminary, concurrent, rework, and damage controls for your department.**  Working in production, I did this in Work Applications 14–1 and 14–2. |

|  |
| --- |
| WORK APPLICATION Example student answer  **14–4. Building on Work Applications** 14–**1 through** 14–**3, illustrate the systems process you personally use within your department. Be sure to give examples of preliminary, concurrent, rework, and damage controls you personally use.**  My actual job was to catch the boxes as they came out of the cutter and to stack them. My input was the boxes coming out of the cutter. My preliminary control was the standing plan procedures for properly catching and stacking them. My transformation process was to catch the boxes and stack them on a cart. My concurrent control was to throw any rejects in a separate pile and to straighten out the stacks, when needed. My output was carts of boxes that were sent to the shipping department for our customers. The pile of rejects were reworked or discarded. My only damage control was giving a reason why the number of carts of boxes weren’t ready on time to go to shipping. |

1. **The Feedback Process within and between Functional Areas/Departments**

Within each department, employees also use the systems process to transform inputs into outputs. Other department members rather than other departments may receive their outputs.

Throughout the systems process, feedback should be circulated among all the functional areas/departments to improve organizational performance in the input, transformation, and output processes while continually increasing customer satisfaction. Exhibit 14–2 illustrates an effective feedback process between the functional departments. Note that operations, marketing, finance, and human resources provide feedback to one another and to the information department. To be effective, feedback should be given to all departments, not just to the information department for dissemination to the other departments.

1. ESTABLISHING CONTROL SYSTEMS
2. **The Control Systems Process**

|  |
| --- |
| LO 14–2. List the four steps in the control systems process.  The steps in the control systems process are (1) set objectives and standards, (2) measure performance, (3) compare performance to standards, and (4) correct or reinforce, with a feedback loop for continuous improvement. |

The steps in the **control systems process** are (1) set objectives and standards, (2) measure performance, (3) compare performance to standards, and (4) correct or reinforce. See Exhibit 14–3 for an illustration of the control systems process.

**Step 1. Set objectives and standards.** Part of planning should be to develop controls. Setting objectives and standards is part of the input process, and the objectives and standards themselves are preliminary controls.

For standards to be complete, they must cover five major areas. **Standards** measure performance levels in the areas of quantity, quality, time, cost, and behavior.Incomplete standards usually lead to negative results.

* ***Quantity.***How many units should employees produce to earn their pay? It is relatively easy to measure performance with quantitative standards.
* ***Quality.***How well must a job be done? How many errors are acceptable? In any situation, you should set quality standards and follow through to make sure employees meet them. If you don’t, employees may not produce quality work. Quality standards are often difficult to establish and measure.
* ***Time.***When should the task be completed? Or how fast? When assigning a task, it is important to specify a time period. Deadlines are one form of time-based standard. And performance is generally measured with respect to a specific time period.
* ***Cost.***How much should it cost to do the job? How sophisticated a cost system should an organization have? The answers to these questions depend on the situation. Some production departments use cost-accounting methods to ensure accuracy, whereas other departments have a set budget.
* ***Behavior.*** What should employees do and not do? Standing plans, especially rules, help control or limit behavior. In addition, there may be specific directives about things to do and say to customers.

|  |
| --- |
| **RQ 14–4. What are the five areas of performance that standards measure?**  Standards measure performance levels in the areas of quantity, quality, time, cost, and behavior. |

|  |
| --- |
| WORK APPLICATION Example student answer  **14–5. Give an example of a standard from an organization you work for or have worked for that has the five characteristics of a complete standard.**  As a waiter, my standard is to wait on no less than five tables (quantity) per hour (time) without messing up anyone’s order (quality) at a salary of $11.00 per hour (cost), to be polite, and to remember to tell all the customers the specials of the day when I bring them their menu (behavior). |

**Step 2. Measure performance.** By measuring its performance, an organization determines to what extent it is successful and how to increase success. If you don’t measure performance, how do you know if the organization’s mission and objectives are being met? An important consideration in the control process is what to measure and how frequently to measure it—inputs that require preliminary controls.

After setting objectives, the next step—which may take place while setting standards—is to identify the critical success factors (CSFs). **Critical success factors** are the limited number of areas in which satisfactory results will ensure successful performance, achieving the objective/standard. You cannot control everything, so the organization, department/team, and individual should identify the few most important things to control.

How often should you measure performance, and what methods of control should you use? It depends on the situation.

|  |
| --- |
| **RQ 14–5. Why is measuring performance important to an organization?**  By measuring its performance, an organization determines to what extent it is successful and how to increase success. If you don’t measure performance, you don’t know how successful you are at meeting the organization’s mission and objectives or how to improve performance. |

|  |
| --- |
| WORK APPLICATION Example student answer  **14–6. Give an example of the critical success factors for a job you have or had. Be sure to place them in priority order (most important first) and to explain why they are critical.**  The knife on the corrugater is the critical success factor. If it is not set up right, all the boxes will be cut in the wrong places. The key performance area lies with the knife person, who must have the right measurements so the knife can cut in the correct place on each box. |

**Step 3. Compare performance to standards.** After determining what, when, and how frequently to measure, you must follow up by comparing the actual results to the objective or standard in order to know if you are on schedule to achieve (or have achieved) the objective/standard. This step is relatively easy if you have performed the first two steps correctly. This comparison determines the type of control, if any, needed in step 4.

A performance or variance report, such as the one shown in Exhibit 14–5, is commonly used to measure and evaluate performance. Performance reports usually show standards, actual performance, and deviations from standards.

|  |
| --- |
| **RQ 14–6. What is shown in a performance report?**  Performance reports usually show standards, actual performance, and deviations from standards. |

**Step 4. Correct or reinforce.** During the transformation process, concurrent controls are used to correct performance to meet standards. When performance is complete and it is too late to take corrective action to meet the standard, the appropriate corrective action is to (1) analyze why the standard was not met, (2) use the information to develop preliminary control, and (3) feed back the preliminary control so as to take the corrective action necessary to meet the objective/standard next time.

When the objective/standard has been met, there is no need for corrective action. However, do not be like most managers and end the control process here. Reinforce the behavior by using techniques such as praise to reward employees for a job well done (Chapter 11). Letting employees know that they are meeting or have met objectives/standards and that you appreciate their efforts motivates them to higher levels of performance through continuous improvement.

|  |
| --- |
| **RQ 14–7. What is the role of reinforcement in the control systems process?**  Reinforcement lets employees know that they are meeting or have met objectives/standards and that you appreciate their efforts, which motivates them to higher levels of performance through continuous improvement. |

|  |
| --- |
| **CSQ 14–2. Apply the control systems process to your college education. What are your major objectives and standards? How do you measure and compare performance to your objectives and standards? What current and future corrective action have you taken? Do you reinforce your performance when meeting goals? If yes, how?**  Answers will vary. |

|  |
| --- |
| WORK APPLICATION Example student answer  **14–7. Identify a situation in which corrective action was needed to meet an objective/standard. Describe the corrective action taken to meet the objective/standard.**  Our objective was to finish an order by 5:00 p.m. The belt on the conveyor broke, and no one could work. The supervisor sent us all to lunch early and called maintenance to put on a new belt. As a result of this action, we were able to meet our objective. |

|  |
| --- |
| **JOIN THE DISCUSSION: ETHICS & SOCIAL RESPONSIBILITY—14–1**  Academic Grades  Answers will vary based on opinion. |

1. **Resistance to Control**

When establishing control systems, especially standards, it is important to consider employee reactions to them and their possible resistance to change. Methods of managing change (Chapter 6) should be used when establishing control systems. Allowing employees to be involved in establishing the control system is very helpful at overcoming resistance to control.

|  |
| --- |
| **CSQ 14–3. Employees tend to resist control and sometimes break the rules. Give examples of things you or others have done to resist controls.**  Answers will vary. |

1. **Control Frequency and Methods**

|  |
| --- |
| LO 14–3. Describe the differences among the three categories of control frequency.  Constant controls are in continuous use. Periodic controls are used on a regular, fixed basis, such as once a day or week. Occasional controls are used on a sporadic basis when needed. |

Controls are needed to accomplish organizational objectives. There are ten specific methods you can use to measure and control performance. These ten methods fall into three categories of **control frequency**: constant, periodic, and occasional.

1. **Constant Controls**

*Constant controls*, which are in continuous use, include self-control, clan control, and standing plans.

* ***Self-control.*** If managers are not watching or somehow monitoring performance, will employees do the job? The real issue is the degree of self-control employees are given versus control imposed by managers. Too much or too little imposed control can create problems.
* ***Clan control.*** *Clan* or *group control* is a form of human resources control in which the organization relies heavily on its culture and norms to ensure specific behaviors. Organizations that use teams tend to rely on clan control. Self- and clan control are used in all phases of the systems process, with preliminary, concurrent, rework, and damage control.
* ***Standing plans.*** Policies, procedures, and rules are developed to influence employees’ behavior in recurring, predictable situations (Chapter 3). Standards are similar to standing plans that are in constant use. When standing plans and standards are developed, they are preliminary controls. When standard plans and standards are implemented, they become concurrent, rework, or damage controls.

1. **Periodic Controls**

*Periodic controls* are used on a regular, fixed basis, such as once per hour or day, every week, or at the end of the month, quarter, or year. Periodic controls include regular meetings and reports, budgets, and audits.

* ***Regular meetings and reports.*** Regular reports can be oral or written. Regularly scheduled meetings with one or more employees to discuss progress and any problems are common in all organizations. These meetings may be scheduled daily, weekly, or monthly. Regular reports are designed as preliminary control. But the report itself is used as concurrent, rework, or damage control, depending on the situation.
* ***Budgets.*** Budgets are one of the most widely used control tools. The preparation of a new budget is a preliminary control. As the year progresses, the budget becomes a concurrent control. At year end, it is reworked for the next year. A budget may require damage control if significant changes, such as overspending, take place for some reason, such as an increase in final cost.
* ***Audits.*** There are two major types of audits: accounting and management. Part of the accounting function is to maintain records of the organization’s transactions and assets. Most large organizations have an *internal auditing* person or department that checks periodically to make sure assets are reported accurately and to keep theft at a minimum. In addition to performing internal audits, many organizations hire a certified public accounting (CPA) firm to verify the organization’s financial statements through an *external accounting audit.* The **management audit** analyzes the organization’s planning, organizing, leading, and controlling functions to look for improvements. The analysis focuses on the past, present, and future. The management audit can be conducted both internally and externally.

Audits may also serve as occasional controls when used sporadically; for example, auditors may make unannounced visits at irregular intervals. The audit is designed as a preliminary control, but it is used to ensure accurate record keeping and to control theft.

1. **Occasional Controls**

Unlike periodic controls, which involve set time intervals, *occasional controls* are used on a sporadic basis when needed. They include observation, the exception principle, special reports, and project controls.

* ***Observation.*** Managers personally watch and talk to employees as they perform their jobs. Observation is also done by video camera and electronic devices. Observation can be used for preliminary, concurrent, rework, or damage control. Management by walking around (MBWA) is a specific method of personal observation that increases performance.
* ***The exception principle.*** When the exception principle is used, control is left up to employees unless problems occur, in which case the employees go to the manager for help. Corrective action is then taken to get performance back on schedule. The exception principle is designed as a preliminary control but can be used for concurrent, rework, or damage control.
* ***Special reports.*** When problems or opportunities are identified, management often requests that a special report be compiled by one employee, a committee within the department/organization, or outside consultants who specialize in that area. Such reports vary in content and nature but are often designed to identify the cause of a problem as well as a solution—or an opportunity and a way to take advantage of it.
* ***Project controls.*** With nonrecurring or unique projects, the project manager needs to develop a control system to ensure the project is completed on time. Project controls are designed as preliminary controls but can be used for concurrent, rework, or damage control.

For a review of the systems process with its four types of controls and the methods of control categorized by frequency, see Exhibit 14–5.

|  |
| --- |
| **RQ 14–8. What are the three constant control methods, the three periodic control methods, and the four occasional control methods?**  Constant controls include self-control, clan control, and standing plans. Periodic controls include regular meetings and reports, budgets, and audits. The four occasional controls are observation, the exception principle, special reports, and project controls. |

|  |
| --- |
| **CSQ 14–4. How does your professor in this course use controls to reduce and/or eliminate cheating on tests and other assignments?**  Answers will vary. |

|  |
| --- |
| WORK APPLICATION Example student answer  **14–8. Give an example of a constant, a periodic, and an occasional control method used by an organization you work for or have worked for. Identify each by name and explain why it is classified as such.**  A constant control where I work is a standing plan that states that all purchases over $500 must be signed by the manager. Our department has a budget, which is a periodic control, for one year. Occasionally, my boss will ask me to check the credit rating on a customer and present a special report on my findings. |

|  |
| --- |
| APPLYING THE CONCEPT Answers  AC 14–2—Frequency and Methods of Control  g 6. Observation. The manager’s desk is facing the employees to provide occasional observation.  a 7. Self. The assistant is working alone without the boss to impose controls.  d 8. Regular meetings and reports. The operations performance report comes monthly.  i 9. Special reports. The employee was asked by the boss to explain the problem.  c 10. Standing plans. The signs stating that helmets must be worn are giving a “rule.” |

1. **FINANCIAL CONTROLS: THE MASTER BUDGETING PROCESS**

A **budget** is a planned quantitative allocation of resources for specific activities. Notice that the definition of *budget* does not include money. This is because all types of resources can be allocated. For example, in Exhibit 14–5, units of output were budgeted. Human resources, machines, time, and space can also be budgeted. However, for our purposes, when we use the term *budgeting* in this chapter, we are referring to the narrower, more common use of the term to mean financial budget.

The steps in the *master* *budgeting process* are to develop the (1) revenue and expenditure operating budgets, (2) capital expenditures budget, and (3) financial budgeted cash flow, income statement, and balance sheet. The three steps, with their substeps, are illustrated in Exhibit 14–7.

|  |
| --- |
| **RQ** 14–**9. What are the three steps in the master budgeting process?**  The three steps in the master budgeting process are to develop the (1) revenue and expenditure operating budgets, (2) capital expenditures budget, and (3) financial budgeted cash flow, income statement, and balance sheet. |

The budget usually covers a one-year period, broken down by month. The finance *controller* is responsible for the budgeting process that results in a *master budget* for the entire organization. Each department submits its proposed budget to the controller/committee for approval. During the budgeting process, the use of power and politics is common, and the negotiating conflict management style (Chapter 8) is typically used to resolve the conflicts that arise when allocating scarce resources.

A. Operating Budgets

The **operating budgets** include the revenue and expense budgets. You must first determine how much money you have or will have before you can plan how you are going to spend it. Therefore, the first step in the master budgeting process is to determine the revenue, and then the expenditure budgets can be determined.

1. **Revenue Budgets**

A *revenue budget* is a forecast of total income for the year. Although sales revenue is the most common form of revenue, many organizations have revenue from investments. Nonprofit organizations often get income from fees, donations, grants, and fundraisers. The revenue budget adds together projected income from all sources, such as sales for each product and/or location. The marketing/sales department commonly provides the revenue figures for the entire firm based on the sales forecast.

1. **Expense Budgets**

An *expense budget* is a forecast of total operating spending for the year. It is common for each functional area/department manager to have an expenditure budget. Many managers fear developing budgets because they have weak math or accounting skills. In reality, budgeting requires planning skills rather than math and accounting skills. Using a computer makes the job even easier. Through the systems effect, all department budgets affect the others; therefore, managers need to share information.

|  |
| --- |
| WORK APPLICATION Example student answer  14–**9. Identify the major source(s) of revenue and expenses where you work or have worked.**  The major source of revenue where I worked was the sale of boxes. The major expenses were wages, the cost of material to make the boxes, machine repair, and shipping costs. |

|  |
| --- |
| **JOIN THE DISCUSSION: ETHICS & SOCIAL RESPONSIBILITY—**14–**2**  Expenses  Answers will vary based on opinion. |

B. Capital Expenditures Budget

|  |
| --- |
| LO 14–4. Explain how the capital expenditures budget is different from the expense budget.  The capital expenditures budget includes all planned major asset investments. It shows funds allocated for investments in major assets that will last and be paid for over several years. The expense budget shows funds allocated to pay for operating costs during the budgeting year. With expense budgets, the focus is on cost control. With capital expenditures budgets, the focus is on the more important role of developing ways to bring in revenues through new and improved products and projects that will create customer value. |

The second step in developing the master budget is to develop the capital expenditures budget. The **capital expenditures budget** includes all planned major asset investments. The major assets owned by an organization are those that last and are paid for over several years. The major assets budgeted for may include land, new buildings, whole new product lines or projects, or acquisition of an existing company. On a lower level, decisions include whether to replace existing assets such as machines with new ones, whether to buy or lease assets, whether to make components yourself or to buy them through outsourcing, and whether to rework defective outputs or sell or scrap them. In every case, the objective is to earn a satisfactory return on the invested funds.

Although controlling expenses is important, the capital expenditures budget is the most important budget because it is based on developing ways to bring in revenues through new and improved products and projects that will create customer value.

|  |
| --- |
| **RQ 14–10. Why is the capital expenditures budget the most important budget?**  The capital expenditures budget is the most important budget because it is based on developing ways to bring in revenues through new and improved products and projects that will create customer value. |

|  |
| --- |
| WORK APPLICATION Example student answer  **14–10. Identify the major capital asset expenditures invested in by your present or a past organization.**  The major capital assets are the plant building and equipment to make the boxes. |

1. Financial Budgets and Statements

|  |
| --- |
| LO 14–5. List the three primary financial statements and what is presented in each of them.  The *income statement* presents revenue and expenses and the profit or loss for the stated time period. The *balance sheet* presents assets, liabilities, and owners’ equity. The *cash flow statement* presents the cash receipts and payments for the stated time period. |

The third step in the master budgeting process is to prepare financial budgets. The financial budgets are prepared last because the operating and capital expenditures budget figures are needed to prepare them. If the budgeted financial statements do not meet expectations, the capital expenditures budget and/or operating budgets may need to be revised.

Each statement commonly gives figures for the year, with each month and quarter presented. The difference between the budget and actual statements is that actual statements report past results while the budget, or pro forma statement, projects future results. Budgets are a preliminary control, and actual statements are a rework control.

|  |
| --- |
| **RQ 14–11. What is the difference between financial statements and financial budgets?**  The difference between financial budgets and financial statements is that financial statements report past results while financial budgets project future results. Budgets are a preliminary control, and actual statements are a rework control. |

Financial statements are used by the internal managers of the firm, as well as external suppliers, creditors, and investors, who make decisions about whether to conduct business with the firm by evaluating its performance.

The three primary **financial statements** are the income statement, balance sheet, and cash flow statement. (They are presented below in the order in which they appear in annual reports.)

1. **Income Statement**

The *income statement* presents revenues and expenses and the profit or loss for the stated time period. The income statement primarily covers one year. However, monthly and quarterly income statements are also developed to measure interim performance and to be used for concurrent control when necessary. Exhibit 14–8 shows an abbreviated income statement for IBM.

1. **Balance Sheet**

The *balance sheet* presents the assets and liabilities and owners’ equity. Assets are owned by the organization; liabilities are debts owed to others; owners’/stockholders’ equity is the assets minus the liabilities, or the share of assets owned. The balance sheet is called by that name because the total of the assets always equals the total of the liabilities plus owners’ equity for a particular point in time. Exhibit 14–8 includes a balance sheet for IBM.

1. **Cash Flow Statement**

The *cash flow statement* presents the cash receipts and payments for the stated time period. (Checks are considered cash.) It commonly has two sections: operating and financial activities. Cash flow statements typically cover one year. However, monthly and quarterly statements are also developed to measure interim performance and to be used for concurrent control when necessary. The operating budgets and capital expenditures budget affect the cash flow statement as cash revenue is received and cash expenses and expenditures are paid.

|  |
| --- |
| **CSQ 14–5. How confident are you in your ability to develop budgets and read financial statements? What experience have you had in developing budgets and reading financial statements?**  Answers will vary. |

|  |
| --- |
| WORK APPLICATION Example student answer  **14–11. Does the company you work for or have worked for make its financial statements available to the public? If it does, get copies and review them. Also, does the organization develop operating, capital expenditures, and financial budgets? If it does, try to get copies for review. If you are not sure, call or talk to your present or past boss to find out.**  I worked for McDonald’s, which makes its financial statements available because it has shareholders. I was able to download them off the Internet. It does develop operating, capital expenditures, and financial budgets; however, I could not get a copy of them. |

1. Personal Finance

In your personal life, two key financial areas to focus on are managing credit wisely and saving for retirement. Using credit cards is a quick way to build a good credit history, which will result in better insurance and mortgage interest rates, as well as other benefits.

On the retirement front, be sure to put the maximum amount possible into an employer’s 401(k) program, or at least enough to get any company match—never decline free money. After maxing out the 401(k), or if you can’t get one, put money into a good individual retirement account (IRA) with no-load funds.

IV. MANAGING PEOPLE

**A. Coaching**

**Coaching** is the process of giving motivational feedback to maintain and improve performance. Employees who are given more immediate, frequent, and direct feedback perform at higher levels than those who are not given such feedback. Training is an important part of coaching, as coaching is continuous development.

|  |
| --- |
| **RQ** 14–**12. What is the objective of coaching?**  The objective of coaching is to maintain and improve performance. |

1. **The Importance of Positive Feedback**

|  |
| --- |
| LO 14–6. Explain the importance of positive motivational feedback in coaching.  The objective of coaching is to improve performance. Positive feedback, such as praise, is used to motivate employees to maintain and improve their performance. |

As implied in the definition of coaching, feedback is the central part of coaching, and it should be motivational. In other words, you should give more positive than negative feedback.

Unfortunately, many managers spend more time giving negative criticism than praise. Managers who only criticize employees tend to *demotivate* them.

|  |
| --- |
| **RQ** 14–**13. How do managers commonly demotivate employees?**  Managers commonly demotivate employees by giving more negative criticism than praise. |

1. **Determining Corrective Coaching Action**

Ability and motivation have a direct effect on performance. When an employee is not performing up to potential, even when acceptable standards are being met, the first step is to determine why using the performance formula: performance = ability × motivation × resources (Chapter 11).

When ability is holding back performance, training is needed. When motivation is lacking, motivational techniques, such as giving praise, may help. Talk to the employee to try to determine why motivation is lacking, and develop a plan together. If motivation does not work, you may have to use discipline. When resources are lacking, work to obtain them.

|  |
| --- |
| **RQ 14–14. What is the performance formula, and how is it used with coaching?**  The performance formula is: performance = ability × motivation × resources. Managers use it to determine the appropriate coaching action for the situation. |

1. **The Coaching Model**

Coaching should be viewed as a way to provide ongoing feedback to employees about their job performance. Model 14–1 presents a four-step coaching model. The four steps in the coaching model are described below.

**Step 1. Describe current performance.** Using specific examples, describe the current behavior that needs to be changed. Tell the employees exactly what they are not doing as well as they can. Notice the positive; don’t tell them only what they are doing wrong.

**Step 2. Describe desired performance.** Tell the employees exactly what the desired performance is in detail. Show how they will benefit from following your advice. If performance is *ability* related, demonstrate the appropriate way. If the employees know the proper way, the problem is *motivational*, and demonstration is not needed. Just describe the desired performance and ask the employees to state why the performance is important.

**Step 3. Get a commitment to the change.** When dealing with an *ability* issue, it is not necessary to get employees to verbally commit to the change if they seem willing to make it. However, if employees defend their way and you’re sure it’s not as effective, explain why your proposed way is better. If you cannot get the employees to understand and agree, get a verbal commitment. This step is also important for *motivation* issues, because if the employees are not willing to commit to the change, they will most likely not make the change.

**Step 4. Follow up.** Remember that some employees (those with low and moderate capability for self-control) do what managers *inspect* (imposed control), not what they *expect*. You should follow up to ensure that employees are behaving as desired.

When dealing with an *ability* issue, if the person was receptive and you skipped step 3, say nothing. However, watch to be sure that the activity is done correctly in the future. Coach again if necessary. For a *motivation* problem, make a statement that you will follow up and that there are possible consequences for repeat performance.

|  |
| --- |
| WORK APPLICATION Example student answer  **14–12. How would you rate your present or past boss’s coaching ability? Explain your answer using critical incidents.**  On a scale of 1–10, my summer boss’s coaching ability was an 8. He took time to tell us what we were doing wrong and right, and was always very polite.  *Critical incident*—Once I was stacking glasses incorrectly, and he came over and showed me the correct way. He nicely explained how easy it would have been for them to fall and hurt someone the way I was stacking them. |

B. **Management by Walking Around**

**Management by walking around** (MBWA) has three major activities: listening, teaching, and facilitating.

1. **Listening**

To find out what is going on, managers must do a lot more listening than talking and be open to feedback.

1. **Teaching**

Teaching does not mean telling employees what to do. It means helping them to do a better job by solving their own problems.

1. **Facilitating**

*Facilitating* means taking action to help employees get their jobs done. The focus is primarily on improving the system to increase performance. By listening, find out what’s getting in the way or slowing employees down. The manager’s job is to run interference—to remove the stumbling blocks preventing employees from improving the system.

|  |
| --- |
| **RQ 14–15. What are the three activities of management by walking around, and what is the role of facilitating?**  Management by walking around (MBWA) has three major activities: listening, teaching, and facilitating. The role of facilitating is the process of taking action to help employees get their jobs done. |

|  |
| --- |
| **CSQ 14–6. Do you feel that managers should spend more time on coaching and MBWA techniques? Explain.**  Answers will vary. |

**C. Counseling**

When coaching, you are fine-tuning performance. With counseling and disciplining, you are dealing with a problem employee who is not performing to standards or is violating standing plans.

|  |
| --- |
| **RQ 14–16. What are the differences among coaching, counseling, and disciplining?**  When coaching, you are fine-tuning performance; with counseling and disciplining, you are dealing with a problem employee who is not performing to standards or is violating standing plans. |

1. **Problem Employees**

There are four types of problem employees:

1. Employees who do not have the *ability* to meet the job performance standards
2. Employees who do not have the *motivation* to meet job performance standards
3. Employees who intentionally *violate standing plans*
4. Employees with *problems*. These employees may have the ability but have a problem that affects job performance. The problem may not be related to the job. It is common for personal problems, such as child care and relationship/martial problems, to affect job performance. Employees with problems should be counseled before they are disciplined.

|  |
| --- |
| WORK APPLICATION Example student answer  **14–13. Identify a problem employee you observed on the job. Describe how the person affected the department’s performance.**  Joel works in my department. He has been having marital problems the last few months, and it has affected his performance. A couple of us have been forced to pick up his slack so we can get our orders done. |

1. **Management Counseling**

|  |
| --- |
| LO 14–7. Explain the manager’s role in counseling and the role of the employee assistance program staff.  The manager’s role in counseling is to give the employees feedback so they realize that a problem is affecting their job performance and to refer employees with problems to the employee assistance program. The role of the employee assistance program staff is to assist employees who need professional help to solve their problems. |

The first thing a manager should do with a person experiencing a personal problem is to attempt to help the employee solve the problem. This is usually done through counseling, which is a form of coaching.

**Management counseling** is the process of giving employees feedback so they realize that a problem is affecting their job performance and referring employees with problems to the employee assistance program.

The manager’s role is to help employees realize that they have problems and that those problems affect their work. The manager’s job is getting the employee back on track.

The manager should not give advice on how to solve personal problems such as a relationship difficulty. When professional help is needed, the manager should refer the employee to the human resources department for professional help through the employee assistance program.

1. **EPA**

The **employee assistance program** **(EAP)** has a staff of people who help employees get professional assistance in solving their problems.

If job performance does not return to standard, discipline is appropriate because it often makes the employee realize the seriousness of his or her problem and the importance of maintaining job performance.

1. **The Importance of Confronting Problem Employees**

A manager’s first obligation is to the organization’s performance rather than to individual employees. Therefore, it is your job to confront problem employees so that they meet the standards and standing plans.

**D. Disciplining**

Coaching, which includes counseling, should generally be the first step in dealing with a problem employee. However, if an employee is unwilling or unable to change or a rule has been broken, discipline is necessary.

**Discipline** is corrective action to get employees to meet standards and standing plans. The major objective of discipline is to change behavior. Secondary objectives may be to (1) let employees know that action will be taken when standing plans or performance requirements are not met and (2) maintain authority when challenged. Exhibit 14–11 lists eight guidelines for effective discipline.

|  |
| --- |
| **CSQ 14–7. Which of the eight discipline guidelines is most relevant to you personally? Explain.**  Answers will vary. |

|  |
| --- |
| WORK APPLICATION Example student answer  **14–14. Review the discipline guidelines in Exhibit 14–11. Identify any guidelines your present or past boss did not follow.**  My supervisor did not always discipline in private when rules were broken. I do not think he documented discipline, either. Sometimes the punishment did not fit the crime; he sent employees home without pay for minor errors. |

|  |
| --- |
| APPLYING THE CONCEPT Answers  AC 14–3—Guidelines for Effective Discipline  F 11. Discipline in private. In the manager’s office, others will not observe the discipline.  E 12. Discipline immediately, but stay calm and get all the necessary facts before you discipline. It is best to stay calm and not to yell.  C 13. Follow the standing plans yourself. The boss breaks the rules but expects others not to.  D 14. Take consistent, impartial action when the rules are broken. The boss is playing favorites.  G 15. Document discipline. The note is documentation of the discipline. |

The human resources department handles many of the disciplinary details and provides written disciplinary procedures. These procedures usually outline grounds for specific sanctions and dismissal based on the violation.

|  |
| --- |
| **JOIN THE DISCUSSION: ETHICS & SOCIAL RESPONSIBILITY—**14–**3**  Disciplining Ethical Behavior  Answers will vary based on opinion. |

1. **Workplace Deviance and Discipline**Workplace deviance is negative voluntary behavior of problem employees that violates significant organizational norms, threatens the well-being of the organization and/or its members, and costs organizations as much as $200 billion annually. Deviant behavior includes rudeness, stealing, violence, vandalism, frequently withholding effort, showing up late, leaving early, and absence from work.
2. **Progressive Discipline**

Many organizations have a series of more severe disciplinary actions. The progressive disciplinary steps are (1) oral warning, (2) written warning, (3) suspension, and (4) dismissal. All four steps are commonly followed for minor violations, such as being late for work or excessive absenteeism. For more important violations, such as stealing, steps may be skipped. Be sure to document each step.

1. **The Discipline Model**

The steps in the discipline model should be followed each time an employee must be disciplined. The five steps are presented here and summarized in Exhibit 14–12.

**Step 1. Refer to past feedback.** Begin the interview by refreshing the employee’s memory. If the employee has been coached/counseled about the behavior or if he or she has clearly broken a known rule, state that.

**Step 2. Ask why the undesired behavior was used.** Giving the employee a chance to explain the behavior is part of getting all the necessary facts before you discipline. If you used prior coaching and the employee committed to changing the behavior, ask why the behavior did not change. If the behavior had changed, discipline would not be needed. Again, be sure to describe specific critical incidents to support your contention that behavior has not changed at all or has not changed enough to be at standard.

**Step 3. Give the discipline.** If there is no good reason for the undesirable behavior, give the discipline. The discipline will vary with the stage in the disciplinary progression.

**Step 4. Get a commitment to change and develop a plan.** Try to get a commitment to change. If the employee will not commit, make note of the fact in the critical incidents file or use the procedures for a written warning. If a plan for change has been developed in the past, try to get the employee to commit to it again. Or develop a new plan, if necessary. With a personal problem, offer professional help again.

**Step 5. Summarize and state the follow-up.** Summarize the discipline and state the follow-up disciplinary action to be taken. Part of follow-up is to document the discipline. At the written warning and suspension stages, get the employee’s signature. If necessary, take the next step in the discipline model: dismissal.

|  |
| --- |
| **CSQ 14–8. Can the need for discipline be reduced? If so, how?**  Answers will vary. |

LEARNING OUTCOMES AND ANSWERS

The chapter summary is organized to answer the learning objectives for Chapter 14. They are also found at the end of the chapter and can be used as short-answer questions on exams.

*These learning objectives are included in the test bank in the concept section.*

14–1. **List the four stages of the systems process and describe the type of control used at each stage.**

The first stage of the systems process is inputs. Preliminary control is designed to anticipate and prevent possible input problems. The second stage is the transformation process. Concurrent control is action taken to ensure that standards are met as inputs are transformed into outputs. The third stage is outputs. Rework control is action taken to fix an output. The fourth stage is customer/stakeholder satisfaction. Damage control is action taken to minimize negative impacts on customers/stakeholders due to faulty outputs. During the four stages, feedback is used to improve upon the process to continually increase customer satisfaction.

14–2. **List the four steps in the control systems process.**

The steps in the control systems process are (1) set objectives and standards, (2) measure performance, (3) compare performance to standards, and (4) correct or reinforce, with a feedback loop for continuous improvement.

14–3. **Describe the differences among the three categories of control frequency.**

Constant controls are in continuous use. Periodic controls are used on a regular, fixed basis, such as once a day or week. Occasional controls are used on a sporadic basis when needed.

14–4. **Explain how the capital expenditures budget is different from the expense budget.**

The capital expenditures budget includes all planned major asset investments. It shows funds allocated for investments in major assets that will last and be paid for over several years. The expense budget shows funds allocated to pay for operating costs during the budgeting year. With expense budgets, the focus is on cost control. With capital expenditures budgets, the focus is on the more important role of developing ways to bring in revenues through new and improved products and projects that will create customer value.

14–5. **List the three primary financial statements and what is presented in each of them.**

The *income statement* presents revenues and expenses and the profit or loss for the stated time period. The *balance sheet* presents assets, liabilities, and owners’ equity. The *cash flow statement* presents the cash receipts and payments for the stated time period.

14–6. **Explain the importance of positive motivational feedback in coaching.**

The objective of coaching is to improve performance. Positive feedback, such as praise, is used to motivate employees to maintain and improve their performance.

14–7. **Explain the manager’s role in counseling and the role of the employee assistance program staff.**

The manager’s role in counseling is to give employees feedback so they realize that a problem is affecting their job performance and to refer employees with problems to the employee assistance program. The role of the employee assistance program staff is to assist employees who need professional help to solve their problems.

WORK APPLICATION SAMPLE ANSWERS

(Most of the answers are actual student answers or based on student answers. You may give these answers as part of your lecture before, after, or in place of getting student answers.)

*These work applications are included in the test bank in the application section.*

14–1. **Using Exhibit 14–1, identify the primary organizational inputs, transformation process, outputs, and customers of a firm you work for or have worked for. Also, identify the level of customer satisfaction.**

Last summer, I worked for a company that made corrugated cardboard boxes. The input was the wood pulp mix that the machine transformed into cardboard, and the output sold was cardboard boxes. The customers were primarily businesses who used the boxes to ship products in and U-Haul, who sold the boxes to renters of their trucks to pack in. Our company always received very good ratings from customers in terms of their satisfaction.

14–2. **Building on Work Application 14–1, give examples of preliminary, concurrent, rework, and damage controls for an organization you work for or have worked for.**

As a preliminary control, we would have to clean our work area regularly and follow safety procedures to prevent accidents. The quality-control supervisor checked our work in process as concurrent control. The boxes had to be cut for different sizes. If there was an error in size, it would be reworked later when a smaller size batch of boxes was being made. Being in production, we did not deal with damage control. However, I do recall hearing the plant manager yelling about having to take back an order from a customer because the size was wrong. This required extra shipping costs to take back the wrong ones and to ship the correct ones.

14–3. **Building on Work Applications 14–1 and** 14–**2 and using Exhibit 14–2, illustrate the systems process for a department you work for or have worked for within an organization. Be sure to give examples of preliminary, concurrent, rework, and damage controls for your department.**

Working in production, I did this in Work Applications 1 and 2.

14–4. **Building on Work Applications** 14–**1 through** 14–**3, illustrate the systems process you personally use within your department. Be sure to give examples of preliminary, concurrent, rework, and damage controls you personally use.**

My actual job was to catch the boxes as they came out of the cutter and to stack them. My input was the boxes coming out of the cutter. My preliminary control was the standing plan procedures for properly catching and stacking them. My transformation process was to catch the boxes and stack them on a cart. My concurrent control was to throw any rejects in a separate pile and to straighten out the stacks, when needed. My output was carts of boxes that were sent to the shipping department for our customers. The pile of rejects were reworked or discarded. My only damage control was giving a reason why the number of carts of boxes weren’t ready on time to go to shipping.

14–5. **Give an example of a standard from an organization you work for or have worked for that has the five characteristics of a complete standard.**

As a waiter, my standard is to wait on no less than five tables (quantity) per hour (time) without messing up anyone’s order (quality) at a salary of $11.00 per hour (cost), to be polite, and to remember to tell all the customers the specials of the day when I bring them their menu (behavior).

14–6. **Give an example of the critical success factors for a job you have or had. Be sure to place them in priority order (most important first) and to explain why they are critical.**

The knife on the corrugater is the critical success factor. If it is not set up right, all the boxes will be cut in the wrong places. The key performance area lies with the knife person who must have the right measurements so the knife can cut in the correct place on each box.

14–7. **Identify a situation in which corrective action was needed to meet an objective/standard. Describe the corrective action taken to meet the objective/standard.**

Our objective was to finish an order by 5:00 p.m. The belt on the conveyor broke, and no one could work. The supervisor sent us all to lunch early and called maintenance to put on a new belt. As a result of this action, we were able to meet our objective.

14–8. **Give an example of a constant, a periodic, and an occasional control method used by an organization you work for or have worked for. Identify each by name and explain why it is classified as such.**

A constant control where I work is a standing plan that states that all purchases over $500 must be signed by the manager. Our department has a budget, which is a periodic control, for one year. Occasionally, my boss will ask me to check the credit rating on a customer and present a special report on my findings.

14–9. **Identify the major source(s) of revenue and expenses where you work or have worked.**

The major source of revenue where I worked was the sale of boxes. The major expenses were wages, the cost of material to make the boxes, machine repair, and shipping costs.

14–10. **Identify the major capital asset expenditures invested in by your present or a past organization.**

The major capital assets are the plant building and equipment to make the boxes.

14–11. **Does the company you work for or have worked for make its financial statements available to the public? If it does, get copies and review them. Also, does the organization develop operating, capital expenditures, and financial budgets? If it does, try to get copies for review. If you are not sure, call or talk to your present or past boss to find out.**

I worked for McDonald’s, which makes its financial statements available because it has shareholders. I was able to download them off the Internet. It does develop operating, capital expenditures, and financial budgets; however, I could not get a copy of them.

14–12. **How would you rate your present or past boss’s coaching ability? Explain your answer using critical incidents.**

On a scale of 1–10, my summer boss’s coaching ability was an 8. He took time to tell us what we were doing wrong and right, and was always very polite.

*Critical incident*—Once I was stacking glasses incorrectly, and he came over and showed me the correct way. He nicely explained how easy it would have been for them to fall and hurt someone the way I was stacking them.

14–13. **Identify a problem employee you observed on the job. Describe how the person affected the department’s performance.**

Joel works in my department. He has been having marital problems the last few months, and it has affected his performance. A couple of us have been forced to pick up his slack so we can get our orders done.

14–14. **Review the discipline guidelines in Exhibit 14–11. Identify any guidelines your present or past boss did not follow.**

My supervisor did not always discipline in private when rules were broken. I do not think he documented discipline, either. Sometimes the punishment did not fit the crime; he sent employees home without pay for minor errors.

REVIEW QUESTION ANSWERS

*These review questions are included in the test bank in the concept section.*

14–1. **Why is damage control important?**

Damage control is action taken to minimize negative impacts on customers/stakeholders due to faulty outputs. When a faulty output gets to the customer, damage control is needed. If you don’t use damage control, you will lose customers.

14–2. **Why should you focus on preliminary and concurrent types of control rather than rework and damage control?**

Preventing problems and catching them before they have negative effects on customers create a win-win situation by minimizing warranty cost and maximizing customer satisfaction. Relying on damage and rework control is not effective because it is more costly to do things twice than to do them right the first time.

14–3. **Who are the primary customers/stakeholders for the outputs of the operations, marketing, human resources, finance, and information functional areas/departments?**

The marketing department is the primary stakeholder for the operations department outputs. The customer gets the product outputs through the marketing department. The human resources and information (MIS) departments provide employees/information as its outputs to all departments as their inputs. The finance department provides budgeted funds, financial statements, and other reports as inputs to all departments and payments to stakeholders.

14–4. **What are the five areas of performance that standards measure?**

Standards measure performance levels in the areas of quantity, quality, time, cost, and behavior.

14–5. **Why is measuring performance important to an organization?**

By measuring its performance, an organization determines to what extent it is successful and how to increase success. If you don’t measure performance, you don’t know how successful you are at meeting the organization’s mission and objectives, nor how to improve performance.

14–6. **What is shown in a performance report?**

Performance reports usually show standards, actual performance, and deviations from standards.

14–7. **What is the role of reinforcement in the control systems process?**

Reinforcement lets employees know that they are meeting or have met objectives/standards and that you appreciate their efforts, which motivates them to higher levels of performance through continuous improvement.

14–8. **What are the three constant control methods, the three periodic control methods, and the four occasional control methods?**

Constant controls include self-control, clan control, and standing plans. Periodic controls include regular meetings and reports, budgets, and audits. The four occasional controls are observation, the exception principle, special reports, and project controls.

14–9. **What are the three steps in the master budgeting process?**

The three steps in the master budgeting process are to develop the (1) revenue and expenditure operating budgets, (2) capital expenditures budget, and (3) financial budgeted cash flow, income statement, and balance sheet.

14–10. **Why is the capital expenditures budget the most important budget?**

The capital expenditures budget is the most important budget because it is based on developing ways to bring in revenues through new and improved products and projects that will create customer value.

14–11. **What is the difference between financial statements and financial budgets?**

The difference between financial budgets and financial statements is that financial statements report past results while financial budgets project future results. Budgets are a preliminary control, and actual statements are a rework control.

14–12. **What is the objective of coaching?**

The objective of coaching is to maintain and improve performance.

14–13. **How do managers commonly demotivate employees?**

Managers commonly demotivate employees by giving more negative criticism than praise.

14–14. **What is the performance formula, and how is it used with coaching?**

The performance formula is: performance = ability × motivation × resources. Managers use it to determine the appropriate coaching action for the situation.

14–15. **What are the three activities of management by walking around, and what is the role of facilitating?**

Management by walking around (MBWA) has three major activities: listening, teaching, and facilitating. The role of facilitating is the process of taking action to help employees get their jobs done.

14–16. **What are the differences among coaching, counseling, and disciplining?**

When coaching, you are fine-tuning performance; with counseling and disciplining, you are dealing with a problem employee who is not performing to standards or is violating standing plans.

COMMUNICATION SKILLS ANSWERS

Applications may also be used as class discussion questions or written assignments to develop communication skills.

*These communication skills questions are included in the test bank in the skills section.*

14–1. **Recall a personal event that you had to help conduct, such as a party, shower, or wedding. Identify preliminary, concurrent, rework, and damage controls, as well as feedback. What did you learn from the experience and the textbook discussion that can help you to plan and control better in the future?**

Answers will vary.

14–2. **Apply the control systems process to your college education. What are your major objectives and standards? How do you measure and compare performance to your objectives and standards? What current and future corrective action have you taken? Do you reinforce your performance when meeting goals? If yes, how?**

Answers will vary.

14–3. **Employees tend to resist control and sometimes break the rules. Give examples of things you or others have done to resist controls.**

Answers will vary.

14–4. **How does your professor in this course use controls to reduce and/or eliminate cheating on tests and other assignments?**

Answers will vary.

14–5. **How confident are you in your ability to develop budgets and read financial statements? What experience have you had in developing budgets and reading financial statements?**

Answers will vary.

14–6. **Do you feel that managers should spend more time on coaching and MBWA techniques? Explain.**

Answers will vary.

14–7. **Which of the eight discipline guidelines is most relevant to you personally? Explain.**

Answers will vary.

14–8. **Can the need for discipline be reduced? If so, how?**

Answers will vary.

APPLYING THE CONCEPT ANSWERS

*There are similar questions in the test bank in the application section.*

AC 14–1—Types of Control

c 1. Rework. The cone needs to be replaced to hold the ice cream.

a 2. Preliminary. The manager is planning for the next week on Friday.

d 3. Damage. The new shirt has been bought by the customer and most likely will be exchanged.

b 4. Concurrent. The monthly budget report is used during the budget period to control spending.

a 5. Preliminary. The coach is planning for the future (the big game on Sunday).

AC 14–2—Frequency and Methods of Control

g 6. Observation. The manager’s desk is facing the employees to provide occasional observation.

a 7. Self. The assistant is working alone without the boss to impose controls.

d 8. Regular meetings and reports. The operations performance report comes monthly.

i 9. Special reports. The employee was asked by the boss to explain the problem.

c 10. Standing plans. The signs stating that helmets must be worn are giving a “rule.”

AC 14–3—Guidelines for Effective Discipline

F 11. Discipline in private. In the manager’s office, others will not observe the discipline.

E 12. Discipline immediately, but stay calm and get all the necessary facts before you discipline. It is best to stay calm and not to yell.

C 13. Follow the standing plans yourself. The boss breaks the rules but expects others not to.

D 14. Take consistent, impartial action when the rules are broken. The boss is playing favorites.

G 15. Document discipline. The note is documentation of the discipline.

CASE ANSWERS

Sue Lee Clothes

14–1. **Which of the four types of organizational systems control did Sue Lee use in allowing employees to go home early when they finished their work?**Establishing this control system takes place before it is implemented, so it is a preliminary control.

14–2. **Explain how Sue Lee used the control systems process in the case.**For Step 1 she set an objective of 53 shirts per day, for Steps 2 and 3 she had supervisors measure performance and made a report comparing performance to the standard, and she is now at Step 4, considering taking corrective action.

14–3. **Did Sue Lee develop complete standards in all five areas and did employees resist the controls?**Sue Lee stated that if employees could produce 53 shirts (quantity) of the same level of quality (quality) as they produce 48 shirts in one day (time), they could go home early (behavior). However, there was no discussion of cost. Employees liked the idea of getting out of work early, so they didn’t resist the control.

14–4. **Which type of control frequency and method did Sue Lee personally use in letting employees leave when they had met the quota/standard of 53 shirts?**Sue Lee spends little time in manufacturing. She found out about Kay in the weekly production reports—periodic control, regular report.

14–5. **How was the new control method supposed to affect the financial performance of Sue Lee Clothes?**Production of more shirts does not bring in revenue or cash, which affects the income statement and cash flow statement; the sale of the shirts brings in revenue. Therefore, production has an indirect rather than a direct effect on revenue. It is possible to make more shirts and not sell them. The area that is directly affected by manufacturing is the cost of goods sold on the income statement and inventory on the balance sheet. If you make more shirts, you use more material and costs go up. Indirectly, cash flow is also affected when finance pays for the additional material. So if they sell the extra shirts, revenues and profits should go up on the income statement.

14–6. **Are there any potential problems with Kay’s adjusting her machine?**

Yes. Adjusting a machine and adding a gadget that speeds it up could result in additional wear and shorten the life of the machine. If the machine burns out faster than normal, it could be an additional cost, which could have a negative effect on the return on the capital investment.

14–7. **Should Jack keep the control system the way it is now and continue to let Kay leave two hours earlier than the other employees? If not, what should she do?**

Sue Lee should change the present control system. Assuming the new gadget will not hurt the machine, Sue Lee should ask Kay to adjust all the machines. A new standard should be developed based on the new machine capabilities. This is fair to all employees who maintain their work pay and hours. To be fair to Kay, she should be paid a bonus for adjusting the other machines and working the longer hours. The bonus could be a payment based on a percentage of the projected first year’s savings. For example, if the savings in the first year is $100,000 and Kay gets 10 percent, she gets an additional $10,000. This will tend to motivate her to fix the machines and work the additional hours. This may also inspire the other workers (and Kay) to come up with additional cost savings ideas if they are rewarded for doing so.

14–8. **Does the increased production/productivity pose any potential threat to employees? Explain.**

If production/productivity goes up and sales do not, employees may get laid off because Sue Lee cannot afford to have employees make shirts that she cannot sell. The key is to focus on increasing the sales so that all shareholders benefit. By being more productive, Sue Lee can possibly lower her prices to be more competitive and get more business.

**Cumulative Case Questions**

14–9. **Which internal environmental factor is the major issue to this case? (Chapter 2)**

Kay changed the *systems process* by speeding up the machine (inputs), and she developed a new procedure for making the shirts (transformation), which resulted in increased productivity (outputs).

14–10. **How does the global village affect Sue Lee Clothes? (Chapter 3)**

The global village has sent most of the manufacturing of clothes overseas. Sue Lee has to compete in a global, not local, environment. Thus, keeping costs down and productivity up is essential to success.

14–**11. (a) Was the change at Sue Lee a strategic or operational one? (b) What was the role of objectives in this case? (c) Which functional area was affected? (Chapter 5)**

a. The change at Chen was an *operational* one. It had a short-term objective and involved a functional strategy.

b. Sue Lee set an objective to produce 53 shirts by the end of the day.

c. The functional area that was affected was the *operations* department, who are responsible for converting inputs into outputs of shirts.

14–12. **Which job design did Kay use to increase productivity? (Chapter 7)**

Kay used *job simplification*. It states that she developed a new procedural sequence of how to make a shirt. Changing the sequence resulted in a lower total time for making the shirts.

14–13. **What type of change was made by Kay to increase productivity? (Chapter 6)**

Sue made a *technology* change by adjusting the machine and changing the systems process for making the shirts.

14–14. **What (a) content, (b) process, and (c) reinforcement motivation theories were used by Sue Lee when she changed the standard to allow employees to go home early? (Chapter 11)**

a. Sue Lee used the *two-factor theory*, as she focused on motivating employees to do more work rather than on maintenance factors such as a pay raise or piece work.

b. Sue Lee used the *goal-setting theory* when she set a goal of 53 shirts to be produced. Employees were motivated to reach this goal because, if they did, they could go home early and still receive their full pay—expectance theory.

c. By allowing employees to go home early with their full pay, Sue Lee used *positive reinforcement*.

**SKILL BUILDER 14–1 IDEAS AND ANSWERS and RECOMMENDED CONTROL SYSTEM**

**Bolton Control System**

**Note:** An important issue of this exercise is the sales to presentation ratio—the number of interviews needed to make one placement or placements completed divided by interviews. This ratio is covered in Chapter 14, but can be computed in this exercise.

Also, step 4 asks students to calculate the rate of productivity. Productivity is actually covered in Chapter 14. Therefore, it is helpful for students to have read about it or for the instructor to cover productivity before completing this exercise. (Or you could have students skip the productivity question.)

*Total Time* (15–50 minutes)

To keep the exercise time to 15 minutes, select option A and just go over the recommended control system at the end of the exercise. With option B, select a time and have as many students present their control systems as time permits. However, you may want to also take 10 to 15 minutes to go over the recommended control system presented at the end of the exercise. You can allow the students to do the exercise in class without requiring the preparation as outside class work if you select option C.

*Recommended approximate time for a 40-minute period using option C:*

8:00 Procedure 35 minutes (20 minutes to develop the control system; 15 minutes to report to the class)

8:35 Conclusion 3 minutes

8:38 Apply It 2 minutes

8:40

Doing Skill Builder 14–1 in Class

Objective

To improve your skill at developing a control system for an organization/department.

Experience

In class, students may work in a group to develop the control system.

Preparation

Students should have developed a control system for Bolton Clerical Employment Agency in the preparation section of this exercise.

Procedure (15–35 minutes)

*Option A.* Go over the recommended control system for Bolton.

*Option B.* Call on one or more students to present their control system to the class.

*Option C.*Break the class into groups of 4 to 6 and have students develop the best control system for Bolton. Have one member be the spokesperson and write down the group’s answers and report them to the class. Give students a set time, such as 10 to 15 minutes, for developing the control system.

Conclusion

Lead a class discussion and/or make concluding remarks.

Sharing

Volunteers give their answers to the Apply It section.

Testing on Skill Builder 14–1

You can have individuals and/or groups pass in the preparation answers for grading. If you want to test during an exam period, you may not want to go over the answers in class because the test questions are taken from the preparation. Students will take some time to write the answers to most of these questions.

Test Questions and Answers (Also found in Test Bank)

1. Identify the systems process for Bolton by identifying its primary inputs, transformation process, outputs, and customers/stakeholders.

Solution

*Inputs* are the clerical workers it recruits. The *transformation process* takes place through sending workers to employers for interviews. *Outputs* are the workers hired by employers. *Customers* are the employers.

Identify major types of control for each stage of the systems process.

Solution

The new control system is a *preliminary* control. *Concurrent* control takes place to determine if standards are being met; if not, corrective action takes place during the year to achieve the objective by year end. *Rework* control comes into play, as the workers may be sent to multiple interviews before they are hired by an employer. Plus, if an employee does not work out on the job, a replacement is found. *Damage* control is needed when an employee does not work out and leaves or if the employee is fired before the three months are up. A refund is made if the person placed does not stay on the job for the full three months.

1. **Step 1. Set Objectives and Standards**

Marie’s objective is to earn $250,000 in revenue for the next year, which is the industry average. Establish standards for the year that will enable Marie to reach her objective.

*Quantity.* Quantity of interviews per recruiter.

Solution

333 interviews per recruiter (1,000 ÷ 3)

Quantity of placements per recruiter.

Solution

84 placements per recruiter (250 ÷ 3 = 83.33)

*(****Note:*** *You need to round up to 84 to make sure you exceed the standard by a bit rather than place below it.)*

Calculate the number of additional interviews needed to meet the standard per recruiter.

Solution

Last year, the average was 77 per recruiter (250 ÷ 3 = 76.66). The new standard is an increase of 7 placements per recruiter (84 – 77).

Calculate the percent increase.

Solution

It is a 9 percent increase (7 ÷ 77 = .090909).

*Quality.* State the dollar value of acceptable refunds per recruiter.

Solution

3 acceptable refunds per recruiter, or $9,000 total

State the corresponding number of refunds.

Solution

The average is $10,000, which is 3.33 per recruiter.

*Time.* State the time period in which the quantity and quality standards should be met.

Solution

Standards are set for a one-year period.

*Cost.* State the cost based on commissions per recruiter.

Solution

$29,167 per recruiter ($87,500 ÷ 3 = $29,166.66)

*Behavior.* Identify any behaviors employees should change to help them meet the standards.

Solution

A major behavior that should change is keeping a record of the number of workers sent to company interviews. This is done by others, as the average is reported. Bolton recruiters need to realize the importance of the interviews-to-placements ratio. The industry average is 4:1 (1,000 interviews ÷ 250 placements). In other words, recruiters, on average, need to send out four workers to interviews to make one placement. If they are not setting up enough interviews, they will not get the placements needed to achieve the standard. By keeping the record, Bolton can compare itself to the industry average. If Bolton recruiters have a much lower ratio, they are being too picky about sending workers out to jobs who may not be perfect but who are good enough to get the job. If Bolton recruiters have a much higher ratio, they are wasting time sending workers to interviews they are not qualified to get.

1. **Step 2. Measure Performance**

What are the critical success factors for employment agencies? Have you identified the critical success factors within your standards? If not, rework them.

Solution

The critical success factors of placements and interviews have been identified.

How often should Marie measure performance and what methods of control should she use?

Solution

Marie could measure performance at the end of the month and check progress at midmonth. See answer below for what control methods that Marie should use.

Time frequency to measure performance.

Solution

The time frequency to measure performance could be monthly, with a progress check at midmonth.

Quantity of interviews per recruiter for time period.

Solution

On a per-month basis, the quantity of interviews would be 28 per recruiter (333 per year ÷ 12 months = 27.75). At midmonth, interviews should be at 14.

Quantity of placements per recruiter for time period.

Solution

The number of placements per recruiter per month would be 7 (84 per year ÷ 12 months = 7). At midmonth, placements should be at 3 or 4.

Specific control methods to use.

Solution

Control methods used should be:

***Constant Controls.*** (1) Self-control is necessary for all employees, but especially with recruiters on 100 percent commissions. (2) Clan control can be used by having all three recruiters know how the others are doing. This information can help motivate meeting the standard. (3) Standing plans should be used for the system of reporting interviews, and the standards are a constant reminder to produce at this level.

***Periodic Controls.*** (1) Regular written reports should be the most important control method used. A simple one-page midmonth and monthly report form should be developed and used by all three recruiters. The report forms could have each month of the year and the monthly standard listed as the columns at the top of the page and the number of interviews and placements as the rows down the page. Each recruiter could keep the original sheets and, at the middle of the month and end of the month, add the new figures, make a copy, and give it to Marie. At midmonth, Marie should check each recruiter’s progress for the month. If someone is below standards, Marie should have a meeting with the employee to take corrective action by determining what is going on and if and how the monthly standard will be met. After each month, Marie should have a meeting with each recruiter to go over the month’s progress and year-to-date progress. If an employee is behind, corrective action should be planned. If the employee is at or above standard, reinforcement should be given. (2) and (3) Budgets and audits are needed, but not as part of this control system.

***Occasional Controls.*** (1) Observation can be used to ensure that recruiters are putting in their hours at the office. Observation can also be used to ensure that recruiters are interviewing workers at the office and calling employers to set up interviews. However, it is not effective for determining ongoing performance. Therefore, it is a secondary, not a primary, control that can be used if problems arise. (2) The exception principle should be used. Recruiters should realize that if they are having some type of problem, they should let Marie know about it. (3) and (4) Special reports and project controls are not really needed.

1. **Step 3. Compare Performance to Standards**

How should Marie compare her agency’s performance to her new standards?

Solution

The primary comparison should be the weekly reports. Recruiters making up their weekly reports can continually compare their performance to standards. As stated above, Marie should check progress at midmonth and the end of the month.

1. **Step 4. Correct or Reinforce**

What type of corrective action should Marie take if standards are not being met or what type of reinforcement if they are?

Solution

The primary corrective action is meeting with recruiters at midmonth if they are not meeting standards and at the end of each month to review progress. It is difficult to state the corrective action without knowing the reason for not meeting the standard. Reinforcement can be simple praise for a job well done. With the commission pay system, employees get paid based on their performance.

1. Assume that Bolton does exactly meet the standard.

Calculate the rate of productivity for Bolton’s past performance (average agency).

Solution

The rate of productivity for Bolton’s past performance is 2.857 ($230,000 ÷ $80,500).

Calculate the rate of productivity for the new performance standard.

Solution

The rate of productivity for the new performance standard is 2.857 ($250,000 ÷ $87,500).

Is there a change in productivity?

Solution

There was no change in productivity. This is due to the proportional increase in the outputs and inputs.

Calculate the past commission per employee (average agency).

Solution

The past commission per employee was $26,833.33 ($80,500 ÷ 3).

Calculate the new commission per employee.

Solution

The new commission per employee is $29,166.66 ($87,500 ÷ 3).

What percent pay increase do recruiters get?

Solution

Recruiters get an 8.7 percent pay increase ($26,833 – $29,167 = $2,334) ($2,334 ÷ $26,833 = .0869).

Do profits increase when the new standards are met?

Solution

Profits do increase, but you cannot tell the percentage based on the information given in the exercise. You can tell it increases because recruiters only get 35 percent of the added revenues, and the major expense is the commissions, which are a variable cost. Most of the other costs are fixed or will not increase enough to offset the profits.

How do you think the employees will react to your proposed control system? Do you think they will resist the control? Why or why not?

Solution

Resistance should not be too strong because you are asking recruiters to be average, and they will be paid more if they produce more.

Recommended Answers for the Bolton Control System

**Note:** This is a sample possible control system. Students can have different answers that are effective control systems.

1. Identify the systems process for Bolton by identifying its primary inputs, transformation process, outputs, and customers/stakeholders.

Solution

*Inputs* are the clerical workers it recruits. The *transformation process* takes place through sending workers to employers for interviews. *Outputs* are the workers hired by employers. *Customers* are the employers.

Identify major types of control for each stage of the systems process.

Solution

The new control system is a *preliminary* control. *Concurrent* control takes place to determine if standards are being met; if not, corrective action takes place during the year to achieve the objective by year end. *Rework* control comes into play as the workers may be sent to multiple interviews before they are hired by an employer. Plus, if an employee does not work out on the job, a replacement is found. *Damage* control is needed when an employee does not work out and leaves or if the employee is fired before the three months are up. A refund is made if the person placed does not stay on the job for the full three months.

1. **Step 1. Set Objectives and Standards**

Marie’s objective is to earn $250,000 in revenue for the next year, which is the industry average. Establish standards for the year that will enable Marie to reach her objective.

*Quantity.* Quantity of interviews per recruiter.

Solution

333 interviews per recruiter (1,000 ÷ 3)

Quantity of placements per recruiter.

Solution

84 placements per recruiter (250 ÷ 3 = 83.33)

*(****Note:*** *You need to round up to 84 to make sure you exceed the standard by a bit rather than place below it.)*

Calculate the number of additional interviews needed to meet the standard per recruiter.

Solution

Last year, the average was 77 per recruiter (250 ÷ 3 = 76.66). The new standard is an increase of 7 placements per recruiter (84 – 77).

Calculate the percent increase.

Solution

It is a 9 percent increase (7 ÷ 77 = .090909).

*Quality.* State the dollar value of acceptable refunds per recruiter.

Solution

3 acceptable refunds per recruiter, or $9,000 total

State the corresponding number of refunds.

Solution

The average is $10,000, which is 3.33 per recruiter.

*Time.* State the time period in which the quantity and quality standards should be met.

Solution

Standards are set for a one-year period.

*Cost.* State the cost based on commissions per recruiter.

Solution

$29,167 per recruiter ($87,500 ÷ 3 = $29,166.66)

*Behavior.* Identify any behaviors employees should change to help them meet the standards.

Solution

A major behavior that should change is keeping a record of the number of workers sent to company interviews. This is done by others, as the average is reported. Bolton recruiters need to realize the importance of interviews-to-placements ratio. The industry average is 4:1 (1,000 interviews ÷ 250 placements). In other words, recruiters, on average, need to send out four workers to interviews to make one placement. If they are not setting up enough interviews, they will not get the placements needed to achieve the standard. By keeping the record, Bolton can compare itself to the industry average. If Bolton recruiters have a much lower ratio, they are being too picky about sending workers out to jobs who may not be perfect but who are good enough to get the job. If Bolton recruiters have a much higher ratio, they are wasting time sending workers to interviews they are not qualified to get.

1. **Step 2. Measure Performance**

What are the critical success factors for employment agencies? Have you identified the critical success factors within your standards? If not, rework them.

Solution

The critical success factors of placements and interviews have been identified.

How often should Marie measure performance and what methods of control should she use?

Solution

Marie could measure performance at the end of the month and check progress at midmonth. See answer below for what control methods that Marie should use.

Time frequency to measure performance.

Solution

The time frequency to measure performance could be monthly, with a progress check at midmonth.

Quantity of interviews per recruiter for time period.

Solution

On a per-month basis, the quantity of interviews would be 28 per recruiter (333 per year ÷ 12 months = 27.75). At midmonth, interviews should be at 14.

Quantity of placements per recruiter for time period.

Solution

The number of placements per recruiter per month would be 7 (84 per year ÷ 12 months = 7). At midmonth, placements should be at 3 or 4.

Specific control methods to use.

Solution

Control methods used should be:

***Constant Controls.*** (1) Self-control is necessary for all employees, but especially with recruiters on 100 percent commissions. (2) Clan control can be used by having all three recruiters know how the others are doing. This information can help motivate meeting the standard. (3) Standing plans should be used for the system of reporting interviews, and the standards are a constant reminder to produce at this level.

***Periodic Controls.*** (1) Regular written reports should be the most important control method used. A simple one-page midmonth and monthly report form should be developed and used by all three recruiters. The report forms could have each month of the year and the monthly standard listed as the columns at the top of the page and the number of interviews and placements as the rows down the page. Each recruiter could keep the original sheets and at the middle of the month and end of the month, add the new figures, make a copy, and give it to Marie. At midmonth, Marie should check each recruiter’s progress for the month. If someone is below standards, Marie should have a meeting with the employee to take corrective action by determining what is going on and if and how the monthly standard will be met. After each month, Marie should have a meeting with each recruiter to go over the month’s progress and year-to-date progress. If an employee is behind, corrective action should be planned. If the employee is at or above standard, reinforcement should be given. (2) and (3) Budgets and audits are needed, but not as part of this control system.

***Occasional Controls.*** (1) Observation can be used to ensure that recruiters are putting in their hours at the office. Observation can also be used to ensure that recruiters are interviewing workers at the office and calling employers to set up interviews. However, it is not effective for determining ongoing performance. Therefore, it is a secondary, not a primary, control that can be used if problems arise. (2) The exception principle should be used. Recruiters should realize that if they are having some type of problem, they should let Marie know about it. (3) and (4) Special reports and project controls are not really needed.

1. **Step 3. Compare Performance to Standards**

How should Marie compare her agency’s performance to her new standards?

Solution

The primary comparison should be the weekly reports. Recruiters making up their weekly reports can continually compare their performance to standards. As stated above, Marie should check progress at midmonth and the end of the month.

1. **Step 4. Correct or Reinforce**

What type of corrective action should Marie take if standards are not being met or what type of reinforcement if they are?

Solution

The primary corrective action is meeting with recruiters at midmonth if they are not meeting standards and at the end of each month to review progress. It is difficult to state the corrective action without knowing the reason for not meeting the standard. Reinforcement can be simple praise for a job well done. With the commission pay system, employees get paid based on their performance.

1. Assume that Bolton does exactly meet the standard.

Calculate the rate of productivity for Bolton’s past performance (average agency).

Solution

The rate of productivity for Bolton’s past performance is 2.857 ($230,000 ÷ $80,500).

Calculate the rate of productivity for the new performance standard.

Solution

The rate of productivity for the new performance standard is 2.857 ($250,000 ÷ $87,500).

Is there a change in productivity?

Solution

There was no change in productivity. This is due to the proportional increase in the outputs and inputs.

Calculate the past commission per employee (average agency).

Solution

The past commission per employee was $26,833.33 ($80,500 ÷ 3).

Calculate the new commission per employee.

Solution

The new commission per employee is $29,166.66 ($87,500 ÷ 3).

What percent pay increase do recruiters get?

Solution

Recruiters get an 8.7 percent pay increase ($26,833—$29,167 = $2,334) ($2,334 ÷ $26,833 = .0869).

Do profits increase when the new standards are met?

Solution

Profits do increase, but you cannot tell the percentage based on the information given in the exercise. You can tell it increases because recruiters only get 35 percent of the added revenues, and the major expense is the commissions, which are a variable cost. Most of the other costs are fixed or will not increase enough to offset the profits.

How do you think the employees will react to your proposed control system? Do you think they will resist the control? Why or why not?

Solution

Resistance should not be too strong because you are asking recruiters to be average, and they will be paid more if they produce more.

*Handout*

**Skill Builder 14–1**

**Selected Math Answers**

**Step 1. Set Objectives and Standards**

Marie set the objective. The standards for the year necessary to meet the $250,000 revenue objective are:

*Quantity of interviews per recruiter:* 333 interviews per recruiter (1,000 ÷ 3)

*Quantity of placements per recruiter:* 84 placements per recruiter (250 ÷ 3 = 83.33)

*(****Note:*** *You need to round up to 84 to make sure you exceed the standard by a bit rather than place below it.)*

*Number of additional interviews needed to meet the standard per recruiter:* Last year, the average was 77 per recruiter (230 ÷ 3 = 76.666). The new standard is an increase of 7 placements per recruiter (84—77).

*Percent increase:* It is a 9 percent increase (7 ÷ 77 = .090909).

*Dollar value of acceptable refunds per recruiter:* 3 acceptable refunds per recruiter, or $9,000 total

*Cost based on commissions per recruiter:* $29,167 per recruiter ($87,500 ÷ 3 = $29,166.66)

*Behavior:* A major behavior that should change is keeping a record of the number of workers sent to company interviews. The industry average is 4:1 (1,000 interviews ÷ 250 placements). In other words, recruiters, on average, need to send out four workers to interviews to make one placement.

**Step 2. Measure Performance**

*Quantity of interviews per recruiter for time period:* On a per-month basis, the quantity of interviews would be 28 per recruiter (333 per year ÷ 12 months = 27.75). At midmonth, interviews should be at 14.

*Quantity of placements per recruiter for time period:* The number of placements per recruiter per month would be 7 (84 per year ÷ 12 months = 7). At midmonth, placements should be at 3 or 4.

Assume that Bolton does exactly meet the standard.

*Rate of productivity for Bolton’s past performance (average agency):* The rate of productivity for Bolton’s past performance is 2.857 ($230,000 ÷ $80,500).

*Rate of productivity for the new performance standard:* The rate of productivity for the new performance standard is 2.857 ($250,000 ÷ $87,500).

*Past commission per employee (average agency):* The past commission per employee was $26,833.33 ($80,500 ÷ 3).

*New commission per employee:* The new commission per employee is $29,166.66 ($87,500 ÷ 3).

*Percent pay increase that recruiters get:* Recruiters get an 8.7 percent pay increase ($26,833—$29,167 $2,334) ($2,334 ÷ $26,833 = .0869).

BEHAVIOR MODELING 1 IDEAS

**Coaching**

In the video, Sarah, the manager, uses the steps in the coaching model (Model 14–1) to coach Dan, an Internet Web page designer, who is not meeting deadlines.

This video may be shown as an independent activity, or it may serve as a behavior model as part of Skill Builder 14–2.

Showing the video takes around 3.5 minutes. After viewing the video, you may ask the class questions such as:

1. What did you like about the way the manager coached the employee?
2. What didn’t you like about the way the manager coached the employee?
3. What would you do differently if you were the manager in this coaching situation?

**SKILL BUILDER 14–2 IDEAS AND ANSWERS**

**Coaching**

*Total Time* (30–50 minutes)

The times to conduct the coaching sessions can vary from class to class. Students with full-time work experience tend to need more time than students without experience. To keep the exercise to 30 minutes, you can use groups of two, eliminating one of the coaching sessions.

*Recommended approximate time for a 45-minute period:*

8:00 Show and discuss Behavior Modeling Video 1 8 minutes

8:08 Procedure 1 3 minutes

8:11 Procedure 2 5 minutes

8:16 Procedure 3 8 minutes

8:24 Procedure 4 8 minutes

8:32 Procedure 5 8 minutes

8:40 Conclusion 2 minutes

8:42 Apply It 3 minutes

8:45

Doing Skill Builder 14–2 in Class

Objective

To develop your skill at improving performance through coaching.

Experience

Students should have read the text discussion on coaching and understand how to use the coaching model.

Preparation

Students will take turns coaching and being coached through role-play.

Procedure 1 (2–4 minutes)

Break the class into groups of three. Each member should select one of the three situations from the text in which to be the manager and a different one in which to be the employee. In each situation, the employee knows the standing plans; he or she is not motivated to follow them.

Procedure 2 (3–7 minutes)

Each group member should write an outline of what he or she will say when coaching Employee 1, 2, or 3, following the steps of the coaching model.

Procedure 3 (5–8 minutes)

The manager of Employee 1, the clerical worker, coaches him or her as planned. (Use the actual name of the group member playing Employee 1.) Talk—do not read your written plan. Both the manager and the employee will have to ad lib.

The person not playing a role is the observer. He or she makes notes on the observer form (provided in the text). The observer should try to make positive comments and point out areas for improvement. The observer should also give the manager alternative suggestions about what he or she could have said to improve the coaching session.

The observer leads a discussion (not a lecture) of how well the manager coached the employee by focusing on what the manager did well and how the manager could improve. The employee should also give feedback on how he or she felt and what might have been more effective in getting him or her to change. Students should not go on to the next interview until told to do so. If some students finish early, wait for the others to finish.

Procedure 4 (5–8 minutes)

Same as procedure 3, but change roles so that Employee 2, the ice cream server, is coached.

Procedure 5 (5–8 minutes)

Same as procedure 3, but change roles so that Employee 3, the auto technician, is coached.

Conclusion

Lead a class discussion and/or make concluding remarks.

Sharing

Volunteers give their answers to the Apply It section.

Testing on Skill Builder 14–2

The same three situations from the exercise are used to test students. I tell students they will be required to list the four steps of the coaching model and what they would say during each step.

Test Questions and Answers (Also found in Test Bank)

Instructions

Write the first step of the coaching model, followed by what you would say to Chris. Write steps 2 to 4, followed by what you would say for each step.

**Coaching.** Your employee, Chris, is a clerical worker. Chris uses files, as do the other ten employees in the department. The employees all know that they are supposed to return the files when they are finished so that others can find them when they need them. Employees should only have one file out at a time. You noticed that Chris has five files on the desk, and another employee is looking for one of them.

Solution

**Step 1. Describe current performance.**

Chris, you have five files on your desk.

**Step 2. Describe desired performance.**

You know you are only supposed to have one file at a time. Why is the policy to have only one at a time?

**Step 3. Get a commitment to the change.**

Will you follow the rule and keep only one file at a time?

**Step 4. Follow up.**

I’ll be watching to make sure you keep only one file at a time. If I catch you again, I will have to discipline you. Now go put the extra files away.

**Coaching.** Your employee, Chris, is a server in an ice cream shop. Chris knows that the tables should be cleaned up quickly after customers leave so that new customers do not have to sit at dirty tables. It’s a busy night. You found dirty dishes on two of Chris’s occupied tables. Chris is socializing with some friends at one of the tables instead of cleaning up.

Solution

**Step 1. Describe current performance.**

Chris, you have two tables with dirty dishes on them.

**Step 2. Describe desired performance.**

You know you are supposed to clean them up quickly so that customers don’t have to sit at a dirty table. Why is the policy to clean up quickly?

**Step 3. Get a commitment to the change.**

Will you clean up the tables rather than socialize in the future?

**Step 4. Follow up.**

I’ll be watching to make sure you clean up the tables quickly. If I catch you again, I will have to discipline you. Now go clean the tables off.

**Coaching.** Your employee, Chris, is an auto technician. All employees at the garage know that they are supposed to put a paper mat on the floor of each car so that the carpets don’t get dirty. When you got into a car Chris repaired, the car did not have a mat and there was grease on the carpet.

Solution

**Step 1. Describe current performance.**

Chris, you did not put a mat on the floor of that car and it has grease on the carpet.

**Step 2. Describe desired performance.**

You know you are supposed to place a mat on the floor before you start to work on a car. Why is the policy to place a mat on the floor?

**Step 3. Get a commitment to the change.**

Will you place a mat on the floor from now on?

**Step 4. Follow up.**

I’ll be watching to make sure you place a mat on the floor. If I catch you again, I will have to discipline you. Now go clean the grease off the carpet.

BEHAVIOR MODELING 2 IDEAS

**Discipline**

This video is a follow-up to Behavior Modeling 1. Dan has continued to miss deadlines, so Sarah progresses to disciplining him following the steps of the discipline model (Model 14–2).

This video may be shown as an independent activity, or it may serve as a behavior model as part of Skill Builder 14–3.

Showing the video takes around 5 minutes. After viewing the video, you may ask the class questions such as:

1. What did you like about the way the manager disciplined the employee?
2. What didn’t you like about the way the manager disciplined the employee?
3. What would you do differently if you were the manager in this disciplining situation?

**SKILL BUILDER 14–3 IDEAS AND ANSWERS**

Discipline

**Note**: This is a follow-up Skill Builder 14–2. However, it can be done without doing Skill Builder 14–2.

*Total Time* (30–50 minutes)

The times to conduct the disciplining session can vary from class to class. Students with full-time work experience tend to need more time than students without experience. To keep the exercise to 30 minutes, you can use groups of two, eliminating one of the disciplining sessions.

*Recommended approximate time for a 45-minute period:*

8:00 Show and discuss Behavior Modeling Video 2 8 minutes

8:08 Procedure 1 3 minutes

8:11 Procedure 2 5 minutes

8:16 Procedure 3 8 minutes

8:24 Procedure 4 8 minutes

8:32 Procedure 5 8 minutes

8:40 Conclusion 2 minutes

8:42 Apply It 3 minutes

8:45

Doing Skill Builder 14–3 in Class

Objective

To develop your ability to discipline an employee.

Preparation

Students should have read the text discussion on discipline and understand how to use the discipline model.

Experience

Students will take turns disciplining and being disciplined through role play.

Procedure 1 (2–4 minutes)

Break the class into groups of three. Each member should select one of the three situations from Skill Builder 14–2. Decide who will discipline Employee 1, the clerical worker; Employee 2, the ice cream shop server; and Employee 3, the auto technician. Also select a different group member to play the employee being disciplined.

Procedure 2 (3–7 minutes)

Each group member should write an outline of what he or she will say when disciplining Employee 1, 2, or 3, following the steps of the discipline model.

Procedure 3 (5–8 minutes)

1. The manager of Employee 1, the clerical worker, disciplines him or her as planned. (Use the actual name of the group member playing Employee 1.) Talk—do not read your written plan. Both the manager and the employee will need to ad lib.
2. The person not playing a role is the observer. He or she makes notes on the observer form (provided in the text). For each of the steps, the observer should try to make a statement about the positive aspects of the discipline and a statement about how the manager could have improved. The observer should also give alternative things the manager could have said to improve the discipline session.
3. The observer leads a discussion (not a lecture) of how well the manager disciplined the employee by focusing on what the manager did well and how the manager could improve. The employee should also give feedback on how he or she felt and what might have been more effective in getting him or her to change. Students should not go on to the next interview until told to do so. If some students finish early, wait until the others finish.

Procedure 4 (5–8 minutes)

Same as procedure 3, but change roles so that Employee 2, the ice cream server, is disciplined.

Procedure 5 (5–8 minutes)

Same as procedure 3, but change roles so that Employee 3, the auto technician, is disciplined.

Conclusion

Lead a class discussion and/or make concluding remarks.

Sharing

Volunteers give their answers to the Apply It section.

Testing on Skill Builder 14–3

The same three situations from the exercise are used to test students. I tell students they will be required to list the five steps of the discipline model and what they would say during each step.

Test Questions and Answers (Also found in Test Bank)

Instructions

Write the first step of the discipline model, followed by what you would say to Chris. Write steps 2 to 5, followed by what you would say for each step. The discipline is a verbal warning.

**Discipline.** Your employee, Chris, is a clerical worker. Chris uses files, as do the other ten employees in the department. The employees all know that they are supposed to return the files when they are finished so that others can find them when they need them. Employees should only have one file out at a time. You caught Chris with three files again two days after coaching him.

Solution

**Step 1. Refer to past feedback.**

Chris, do you recall two days ago when I told you not to have more than one file on your desk?

**Step 2. Ask why the undesired behavior was used.**

Why do you have more than one file at a time on your desk?

**Step 3. Give the discipline.**

Because you broke the policy, I have to discipline you as I told you I would. You have a verbal warning.

**Step 4. Get a commitment to change and develop a plan.**

Will you stop having more than one file on your desk at a time? What can we do to make sure you remember to follow the policy?

**Step 5. Summarize and state the follow-up.**

I’ll be watching to make sure you keep only one file at a time. If I catch you again, I will have to discipline you with a written warning. Now go put the extra files away.

**Discipline.** Your employee, Chris, is a server in an ice cream shop. Chris knows that the tables should be cleaned up quickly after customers leave so that new customers do not have to sit at dirty tables. It’s a busy night. You found dirty dishes on two of Chris’s occupied tables. Chris is socializing with some friends at one of the tables instead of cleaning up. You just coached Chris about this problem two days ago.

Solution

**Step 1. Refer to past feedback.**

Chris, do you recall two days ago when I told you not to leave tables dirty?

**Step 2. Ask why the undesired behavior was used.**

Why do you have two dirty tables while you are talking to your friends?

**Step 3. Give the discipline.**

Because you broke the policy, I have to discipline you as I told you I would. You have a verbal warning.

**Step 4. Get a commitment to change and develop a plan.**

Will you stop leaving dirty tables? What can we do to make sure you remember to follow the policy?

**Step 5. Summarize and state the follow-up.**

I’ll be watching to make sure you clean up the tables quickly. If I catch you again, I will have to discipline you with a written warning. Now go clean the tables off.

**Discipline.** Your employee, Chris, is an auto technician. All employees at the garage know that they are supposed to put a paper mat on the floor of each car so that the carpets don’t get dirty. When you got into a car Chris repaired, the car did not have a mat and there was grease on the carpet. You just coached Chris about this problem two days ago.

Solution

**Step 1. Refer to past feedback.**

Chris, do you recall two days ago when I told you to place a mat on the floor of each car before you work on it?

**Step 2. Ask why the undesired behavior was used.**

Why didn’t you put a mat on this car floor?

**Step 3. Give the discipline.**

Because you broke the policy, I have to discipline you as I told you I would. You have a verbal warning.

**Step 4. Get a commitment to change and develop a plan.**

Will you place a mat on the floor every time? What can we do to make sure you remember to follow the policy?

**Step 5. Summarize and state the follow-up.**

I’ll be watching to make sure you place mats on the floor. If I catch you again, I will have to discipline you with a written warning. Now go clean the grease off the carpet.