

# Lesson Note: Business Control

This lesson will talk about...

1. What is “controlling” in business management?
2. The Importance of Controlling
3. The Control Process
4. Two Types of Controls

## What is “Controlling” in Business Management?

Earlier, you learned about strategy. Strategy is setting a goal, making an action plan, and defining the success metrics. **Controlling** is about the last two parts of strategy: action plan and success metrics.

When we talk about controlling, we’re talking about making sure the team stays on track towards meeting the goals. The action plan will have a timeline for which actions need to get done by when. Typically, business leaders meet quarterly to see how the action plan is going. Is the company on-track, behind-schedule, or ahead-of-schedule? If the company is behind-schedule, then how can we get back on schedule?

Controlling also involves setting success metrics. When the leaders review progress every quarter, they will also look at the success metrics. Is the company meeting the goal? If not, how can we get there?

In the Strategy Lesson, we used the analogy of a person trying to lose weight. He writes down his strategic plan:

*“I want to lose 30 pounds in the next six months. I’m going to do eat less junk food and exercise for 30 minutes every day.”*

In order to control his progress, he needs to set a success metric and track that metric every day. He writes:

*“I’ll check my weight on the scale every day.”*

Then he actually goes and do the plan. Some days, he is on track, and his weight is steadily going down. Some other days, he loses more than he planned, so he is ahead-of-schedule. Some days, he fell behind and gained some weight. This daily tracking is the control process.

Similarly, companies will have a strategic plan, and they need to set success metrics and track their progress regularly, whether that is every week, month, or quarter.

Here is a comparison of strategic planning versus controlling.

STRATEGIC PLANNING	CONTROLLING
Set the goals and success metrics	Track progress towards the goals using the success metrics
Create an action plan	Review the action plan and see if the organization is on-schedule or not.
Happens at the beginning of the year	Happens throughout the year (usually monthly or quarterly)
Requires big-picture thinking and creativity	Requires attention-to-detail and problem-solving skills

## The Importance of Controlling

Controlling is important for two major reasons:

1. It ensures the goals get met
2. It is a way to evaluate the performance of employees implementing the plan

### Ensuring Goals Are Met

Some people might say that controlling is more important than setting the goal because everyone sets goal, but so few people achieve their goals. Why is that? It was a problem in the control and execution. Controlling requires us to DO the hard work and track our progress.

To give an analogy, image you are a train. Setting the strategy is like knowing where you want to go. Control is building the railroad tracks for the train to follow.

To give an example, teachers ask their students to submit a rough copy of an assignment before the final copy is due. This why the teacher can check if the student is on the right track or if the student fell off track. Companies need to periodically check their progress. They cannot wait until the end of the year to check if they met their goals. If they did that, their chance of success would be very low.

### Evaluating Employee Performance

Controlling is also a way to evaluate employees. If the company is on-track towards meeting the strategic goals, then the employees are doing a good job. If the company is not on-track, then employees need feedback or training.

This is also why bonuses are usually tied to certain success metrics like sales. The company will set a sales goal at the beginning of the year, and the team will keep tracking progress towards that goal every month, hoping to meet or exceed that goal. If they do, they get a bonus.

## The Control Process

The control process has four steps, and it's very logical and intuitive.

1. Establish performance metrics or standards
2. Measure performance
3. Compare performance with the standards
4. Take corrective actions

Let's do an example. Let's say a big restaurant chain wants grow revenue, and they plan to do that by opening more stores across the country.

### Step 1: Establish performance standards

During the strategic planning process, the leaders will decide on success criteria. They might decide on

- **Revenue growth:** aiming for 20% growth
- **# of stores:** aiming for 4 new stores. 1 new store each quarter.

Those are two performance metrics.

### Step 2: Measure performance

Throughout the year, the organization will be constantly measuring revenue using their computer systems. Number of new stores is easy to measure because it won't happen often.

### Step 3: Compare performance with the standards

The leadership team will meet every quarter (every 3 months) to compare their performance to the goal. So, three months into the year, the team meets. So far they've opened 1 store. Great, they are on-track. Revenues have only gone up by 2%, and the action plan said revenues should be up 5% after the first store opens. Uh-oh, what's wrong? The team needs to figure that out and see what they can do to bring revenues up.

The team does some investigating and finds that the new restaurant didn't do enough advertising, so there were very little customers.

### Step 4: Take corrective actions

The team decides on some actions to bring revenue up. They will invest money in some advertising, and for the future stores, they will ensure there's enough advertising before the store opens.

That's a simple example of a leadership team following the 4-steps in the control process. They will go through the four steps again every time they meet to check progress.

## Two Types of Controls

There are two basic types of control systems: feedforward and feedback.

### Feedforward Controls

**Feedforward controls** aim at preventing problems from happening. Another way to think of feedforward controls is **problem prevention**.

Let's continue the example of the restaurant to wants to grow revenues and open more stores. What are some feedforward controls they can use to prevent problems?

Feedforward Control	Prevents the problem of...
Put a good leader in charge	Weak leadership Low staff morale
Hire good employees for the leader	Customers complaining High employee turnover
Budgeting	Running out of money Wasting money
Daily meetings	Lack of communication between leaders and employees

To give a personal example, let's say your goal is to get a 95% in a course. What are some feedforward controls you might use? In other words, what should you do every day to prevent problems from occurring?

Feedforward Control	Prevents the problem of...
Do the homework every day	Falling behind
Review previously learned material at the end of the week	Forgetting what I learned before Needing to cram before the exam
Get enough rest	Getting sick and then missing class
Finding smart classmates to talk to	Struggling alone

From these examples, we see that feedforward controls are extremely important for people and organizations to achieve their goals. Often times, feedforward controls are things we do every day or every week to stay on track towards our goals. Many people fail to achieve their goals because they don't set feedforward controls.

### Feedback Controls

**Feedback controls** are about reviewing performance after it's measured. Another way to think of feedback controls is **problem solving**. In the above restaurant example where the leaders meet every quarter to compare performance to the plan, that's an example of feedback control. Whatever problems they face at that meeting, they will think of a solution to deal with it.

## Check Your Understanding Questions

1. What does “controlling” mean in business management?
2. What’s the relationship between controlling and strategic planning?
3. Why is controlling important for an organization?
4. Explain the four steps in the control process?
5. What are the two types of controls? Give examples.