

Design & Evaluation

Chapter 6

AirTex

- What control problems exist at AirTex before the take-over?



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Part 1

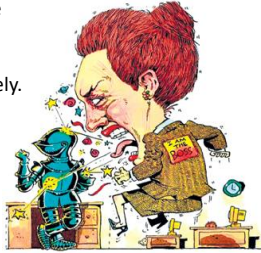
MSC DESIGN THEORY

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MCS Critical for Management Function

Management Control Systems are aimed to ensure that the organization's objectives and strategies are carried out effectively.

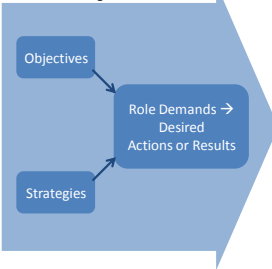
- Management control systems increase the likelihood of organizational success if the implementation is appropriate.



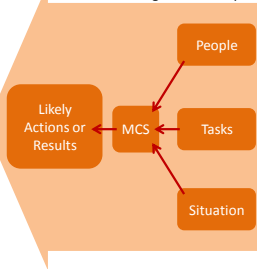
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Control Systems Based on Gap Analysis

Understanding what is desired:



Understanding what is likely:



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What is Desired!?

- Key actions
 - actions that must be performed to provide the greatest probability of success
- Key results
 - the few key areas where things must go right for the business to flourish.
- Depend on strategy etc.



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What is Likely!?

- Investigate potential for each control problem:

- Lack of direction
- Motivational problems
- Personal limitations

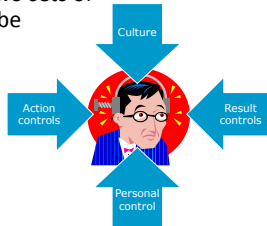


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Designing Control Systems

- Whenever “what is likely” differs from “what is desired”, two sets of design questions should be addressed:

- Selection of types of controls
- Selection of tightness of controls



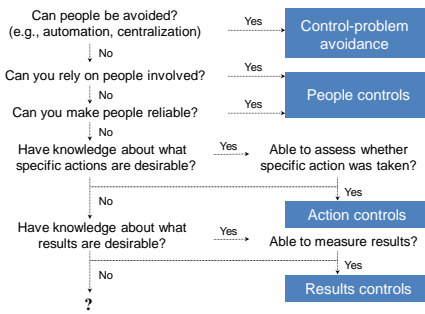
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Pros and Cons of Control Mechanisms

Action controls	<ul style="list-style-type: none"> Direct link between action and control Documentation and learning Efficient coordination (if technology is simple and stable) Proactive 	<ul style="list-style-type: none"> Stifling creativity and fast adaptation Foster sloppiness Negative attitudes Behavioral displacement risk Often costly (indirect costs)
Results controls	<ul style="list-style-type: none"> Feasibility due to monetary focus Can be used to enhance autonomy Provides high-level coordination Can enhance motivation Relatively inexpensive 	<ul style="list-style-type: none"> Imperfect link to actions Shift risk to employees Risk of gamesmanship Motivation vs communication Costly (indirect costs) Reactive
Personnel or cultural controls	<ul style="list-style-type: none"> Relatively inexpensive (except selection and training) Few harmful side effects Proactive 	<ul style="list-style-type: none"> Difficult to change quickly (particularly cultural controls) Requires significant trust

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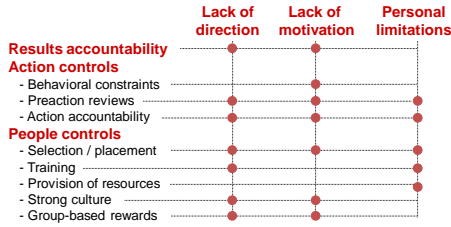
Conclusion: A Design Process



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Overview of Control Mechanisms' Suitability

The different types of controls (action, results and people controls) are not equally effective at addressing each of the control problems.



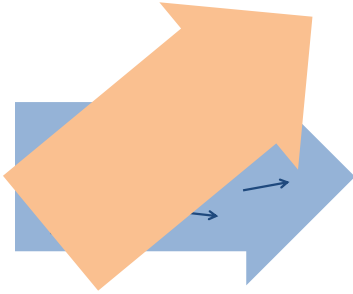
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PART 2

UNDERSTANDING AND CHANGING BEHAVIOR

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Changing Behavior



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Two World Views

Trait view	Behavioral view
Traits People "are"because of inner state <i>Fixed</i>	Behaviors People "do"because of context <i>Changes</i>

(Courtesy of David Blank)

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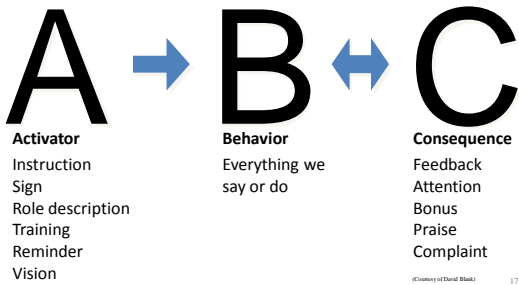
Objective Behaviors Are:

Observable

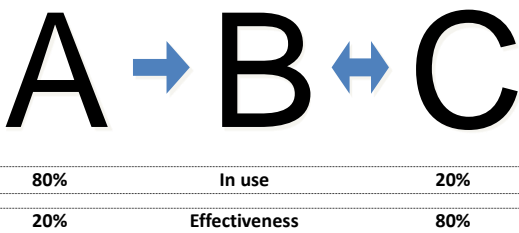
Measurable

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How do Make Someone do Something



Spend Your Efforts Wisely



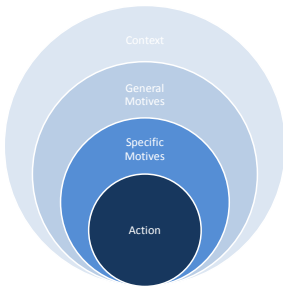
Engaged Workers make a Difference

- The proportion of engaged workers in the US is 30%
- This number does not change with macro-economic swings, but only through better management
- Correlation between engaged workers and financial results
- The proportion of intangible assets of companies' values has from 1982 to 2001 grown from 38% to 85%

Science Group and Behavioral
Science Institute
(Courtesy of David Blank)

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Motivation in Layers



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Changing is a Leap

“Old” behavior

“New” behavior



(Courtesy of David Blank)

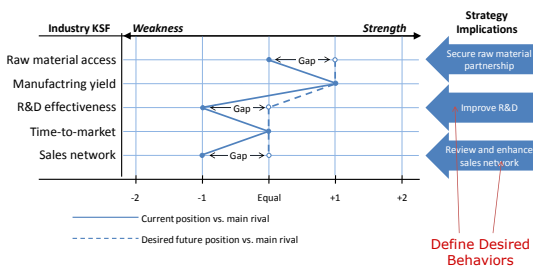
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STARTING POINTS – STRATEGY & KSF

A Simple Strategy Formulation Process

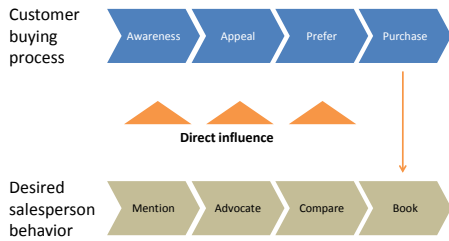
1. Identify KSFs of the industry
2. Review the firm in terms of how it meets the KSF
3. Compare with e.g. the largest rival (or several rivals) to make a more objective scoring
4. Project the future-state scoring to illustrate gaps
5. Use either the likely or the desired future state
6. Prioritize each KSF and draft high-level actions to maintain strong points, close critical gaps etc. This provides a starting point for strategy formulation

SWOT Should Be Based in KSF



Define What is Desired?

- Example from Travel Operator



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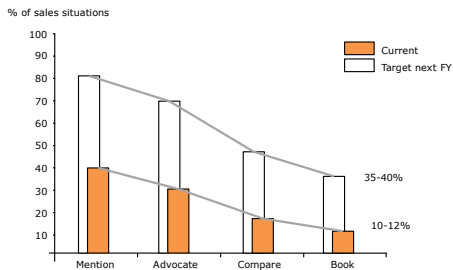
Start Outlining Control System Req.

What is desired?	Mention	Advocate	Compare	Book
What is likely? -Motivation -Direction -Limitations	Mention of our products	Poor promotion	Not likely today	On customer request
Control system candidates?	-	(Tools and) Training	(Tools and) Training Performance measurements	(Tools and) Training Performance Measurements Rewards
Control system types		PC	PC + RC	PC + RC

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Then Set Performance Areas, Measures, Targets etc.

Increase Activity Levels



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Keep it Simple!



Questions Chapter 6

Ted and Frank made some changes in roles and controls after taking over AirTex. What were the key actions and key results they wanted department managers to focus on?
