Chapter Six: Control

Model answers

Mini case 6 (i) Customised control system at TATA Daewoo

Discussion point

Can competitive advantage be sustained through the development and implementation of a control system?

According to management guru Henry Mintzberg, the use of operations as a means of competitive advantage has been underrated. Control is an integral part of operations and can contribute to gaining a competitive advantage. This is especially the case if the control system adds value that rivals find difficult to match. However, in the modern business environment it is sometimes difficult to sustain a competitive advantage based solely on operations and control systems as part of that. This is because of imitation and knowledge sharing across industries. It is almost impossible to keep processes or systems secret in the modern world as technology has hugely increased the scope for sharing knowledge. Information can easily be electronically disseminated to many people both inside and outside the organisation. Normally, such procedures or technologies that support effective control systems quickly become diffused throughout the industry making any competitive advantage based on that alone sort lived.

Questions and tasks

Why is there no evidence of worker resistance to the implementation of a system that places their activities under greater scrutiny?

The main reason for the lack of any discernible resistance to the implementation of the control system at TATA Daewoo is the cultural factor. The commercial vehicle arm of the business is located in South Korea where

most workers are largely compliant with company diktats. Although political protest is a feature of Korean society, there is little history of industrial disputes. The Far East is where many of the management principles of TQM, Kaizen, and others emerged. Part of the success of these techniques is the discipline of workers who are charged with the responsibility of ensuring quality. The social structures of countries like Japan, Taiwan, and Korea are characterised by high levels of obedience and self-discipline. These are instilled in the populace from an early age and are easily transferred into the workplace. The concept of respect for elders is also fundamental to these cultures. Compared to more liberal societies, such as the USA or the Netherlands, it is easier to implement control systems that places workers under greater scrutiny in Korea where TATA Daewoo successfully operate.

Identify five advantages of implementing the control system at TATA Daewoo.
The main advantages of implementing the control system at TATA Daewoo were:

- work-in-progress tracking along the production line;
- improved collection and analysis of production data;
- more accurate monitoring of actual work shift production;
- closer inspection of the production line by supervisors; and
- greater integration between the production line and other parts of the plant such as stores and distribution.

Discuss the strategic significance of the implemented control system.
At a strategic level, the system allows the company to compete more effectively by generating production data and information that helps managers make business decisions quicker than rivals. TATA Technologies also leveraged advantages from its long association with Indian car manufacturer, TATA Motors, to access insights and knowledge on developing manufacturing control systems. These are important advantages for a firm

seeking to operate at the global level in an industry characterised by strong brands.

Mini case 6(ii): Integrating Total Quality Management in Botswana

Discussion points

Is it suitable to attempt to introduce management techniques such as TQM into Botswana?

The prevailing national culture in Botswana presents a challenge to those seeking to introduce management techniques such as TQM, as there is no history of workers taking responsibility for enhancing quality - this is generally seen as the domain of managers. Similarly, in a society characterised by tribal traditions, taking ownership of decision making or challenging superiors is has been a foreign concept to workers. However, there are efforts being made in the country to change the mindset of workers. Schools and universities increasingly include Western-style management techniques as part of their curricula, the government has introduced incentives for companies to extend their training programmes around new management techniques and consultancies, and training providers, such as Excelle, deliver bespoke educational programmes designed to inform and educate workers and managers as to the potential of different techniques and the approaches to working relationships that underpin them. These initiatives are designed to enable the country to compete more effectively in global markets in the future, to generate economic wealth and to become more efficient in their key industry sectors. It may take some time for cultural change to emerge but from an economic and development perspective, it is suitable for countries such as Botswana to attempt to integrate new management techniques into their working practices.

Should managers intervene to alter national cultures to suit their commercial interests?

This question has philosophical and ethical aspects to it as well as commercial and business ones. Much depends on what perspective one takes when addressing this issue. Some critics of globalisation point to the erosion of national cultures as being one of the negative effects of governments seeking rapid economic growth, especially in developing countries where indigenous cultures remain strong. To effect economic growth, managers have to try to introduce the techniques that help businesses compete in global markets. However, this may compromise some deeply held beliefs and values that have a positive effect for social cohesion. Governments need to determine the balance between economic growth and development against that of preserving the character of the national culture. Managers then take their lead from government in determining how and when to implement strategies to achieve their stated aims. There are many examples of governments pursuing economic growth at the expense of the preservation of the indigenous culture. The massive Three Gorges dam in China displaced millions of people who had a occupied the banks of the Yangtse river for centuries; Amazonian rainforest tribes have been marginalised by extensive logging in Brazil; and the Ogoni people of Nigeria have been affected by the drilling of oil companies in their tribal homelands. Companies will always seek commercial opportunities wherever they exist. It is the role of government to determine the extent to which they can pursue this at the expense of national cultures.

Questions

What is Total Quality Management (TQM)?

TQM is a set of management practices that are geared towards meeting or exceeding customer expectations. It places emphasis on process

measurement and strong control mechanisms as a means of continuous improvement.

What are the cultural barriers to introducing TQM in Botswana?

In Botswana there is a distinctly fatalistic aspect to the national culture. In the context of introducing TQM, Botswana workers do not tend to take responsibility for their own actions, rather they believe this to be the role of management. They also tend to leave prevention of problems to management – a further contradiction of TQM principles. The social structure in Botswana also presents a problem, as it is based on tribal traditions where hierarchy is a key feature. Workers have a deeply embedded sense of where they belong in the social hierarchy. This makes Botswana society more prescriptive than achievement orientated. Whereas TQM emphasises rewards for workers' contribution to improved outcomes, in Botswana few workers possess aspirations of this nature.

Can managers realign the national culture of Botswana to more readily accept TQM principles?

There is a case for realignment from both cultural and business perspectives. Efforts to integrate new management techniques are already evident in Botswana and are being driven by government initiatives, training programmes and education. However, to make progress in this cultural re-adjustment, it is necessary for managers to adapt their techniques to more closely align with national cultures. In the case of TQM it may be possible to adapt the rigour of it to facilitate its introduction into the working practices in countries such as Botswana. To introduce them in the format that is common in countries such as Japan would be unrealistic, counter-productive and likely to meet with resistance from workers.

Mini case 6 (iii) A failure to control at Allied Irish Bank

Discussion point

Is it possible to fully regulate the banking industry?

It is possible to fully regulate banking, but it may not be desirable. The world of finance has been likened to a river: it needs to flow in order to function properly, and any barrier to the flow creates inefficiencies. Banking exists to circulate money for investment, speculative and saving purposes. It operates best when unhindered by barriers in the form of regulation. However, left to their own devices, bitter experience tells us that the industry is poor at self-regulating. Thus, governments have to step in to ensure that the balance between allowing financial transactions to flow and avoiding excessive risk taking is in place. The extent to which regulation should be imposed is one that is ultimately a government decision, albeit the banks have a powerful lobbying system to support their case for deregulation.

Questions and task

Explain what the 'credit crunch' is.

Throughout the late 1990s and 2000s, financial institutions took advantage of the so-called 'light-touch' regulation to pursue growth and profits through lending to commercial enterprises, consumers and other banks. The flow of credit increased as banks sought to cash in on the high demand for money. As competition for borrowers increased, the banks increased their lending and the attendant level of risk that accompanied it. The credit crunch refers to the scenario when the amount of credit (loans) that banks were able to offer radically reduced as more and more of their risky loans defaulted. That is, the borrowers were unable to pay back the loan, leading many banks to write off the debt. The extent of the problem only became apparent when some banks and financial institutions went bankrupt (most notably the

OXFORD
UNIVERSITY PRESS

previously highly regarded Lehman's bank in the USA). Many banks had to be rescued by the taxpayer to ensure that the global financial system did not completely collapse. The credit crunch refers to the situation that followed whereby acquiring loans from banks and other financial institutions became extremely difficult due to their lack of liquidity (cash reserves) and confidence.

What were the main reasons for the Allied Irish Bank and others needing a bailout by the taxpayer?

The main reason for the Allied Irish bank requiring a taxpayer bailout was the excessive risks they took when funding the housing boom in Ireland throughout the 2000s. The bank habitually awarded 100% mortgages to borrowers who had no real prospect of paying off the loan. Many defaulted and this led to the bank having to write off billions of euros in bad debt. Other banks acted in a similarly reckless manner due to the lack of effective regulation and ineffective management. It was not just the retail banking sector that suffered through. Investment banking was also characterised by huge risk taking ventures that resulted in bad debts. Expensive acquisitions also proved fatal for some including the Royal bank of Scotland and its disastrous takeover of ailing Dutch bank ABN-Amro.

What internal controls are needed by banks to guard against excessive risk taking?

Banks need to be managed properly to avoid a spiral of excessive risk taking and debt to take over its operations. This means putting in place some basic and fundamental processes such as documentation, checking procedures, limits to lending, policies for due diligence and education on corporate social responsibility. These are necessary to regain the trust of the public and other stakeholders. Experience from the credit crunch reveals that decision making processes in financial institutions were badly flawed , with too much

power being vested in too few people, without sufficient checks and balances in place to constrain their behaviour. Since the credit crunch of 2008, it seems that internal controls are likely to be bolstered by a much greater level of transparency, whereby shareholders and consumers can clearly see what bankers are doing on their behalf.

Case study questions and tasks

Discussion points

Are creative workers more difficult to control than non-creative ones?

Creative workers need an environment where they can generate ideas, be innovative and build relationships. An overly controlled environment may not be conducive to bringing the best out of creative workers, as they may not react well to an environment that is characterised by monitoring, schedules, bureaucracy, and so on. As a result, they may prove difficult to control. Therefore, it is necessary for managers to create the correct balance between control and freedom to maximise returns on investment in creative talent.

Do workers at Quest Media have to compromise their right to privacy to accommodate the new workflow system?

Whenever a control system is implemented, there is some compromise with freedom and privacy. An integral part of control is monitoring of activities. When those activities are carried out by humans, then inevitably there is a diminished sense of privacy. However, much depends on the nature of the control system implemented and what it is used for. If workers can see the benefits of the control system then resistance may be low. Control systems that are intrusive and designed to increase surveillance on workers rather

than the productive process is likely to meet with greater resistance. In general, workers have a different perception of privacy in the workplace compared to their domestic domain, but this has different limits in different industies. For example, call centre workers are used to close monitoring, whereas creative workers tend not to thrive under close supervision. At Quest Media, the workflow system has demonstrably improved the work processes and workers have been fully engaged in the process. Although there is greater transparency into what the workers are actually doing, the case does not point to there being any significant resistance due to any perceived compromise of privacy.

Questions and tasks

Identify and explain three main advantages of introducing a workflow management system at Quest media.

Benefits may include three from any of the following:

- Standardised production across all titles
- Greater control of processes and activities
- Better communications integration between departments
- Improved transparency in the range of activities performed by workers
- Greater quality control
- Time, effort and money savings
- Broader access to the skills and experience of freelance workers
- Increased possibilities for remote working

Give two examples of how the Van Gennep workflow system improves efficiency at Quest Media.

OXFORD
UNIVERSITY PRESS

There are a number of ways that the Van Gennep system improves efficiency. Key ones include:

- the capability to workers create, plan, collect, and store a host of information and imagery relevant to each stage of production;
- compatibility with existing information systems, thereby creating a customised solution that can be applied across the organisation;
- the appearance (to the user) that a single system is in use no matter what function is being performed;
- increased confidence in the technology as workers become more familiar with the range of functions the system offers, and increase their experience of using it. Workers thus feel empowered rather than controlled by the system.

What strategic control factors are evident in the case?

Key strategic issues in the case relate to the increased efficiency saving improving the competitive position of the organisation in a highly competitive industry. The opportunities for extending applications help to deliver a broader range of options for design and other differentiating factors. The case also highlights how the new workflow system allows the company to explore new working arrangements, including remote working and extending freelance working.

Chapter questions and tasks

Giving examples, outline some of the reasons for organisations to introduce formal control systems.

Organisations introduce control systems to ensure the products and processes are of a minimum standard of quality. This builds brand loyalty from customers who can be confident in the quality and safety of products they buy. Cadbury the chocolate makers have a rigorous food safety control system designed to guarantee consistent levels of quality across the range of their products. Accredited bodies such as the Food Standards Agency add a further level of scrutiny to the process.

Control systems also function in human resources contexts. The quality of work produced by workers has to be monitored to ensure that it aligns to company policy on procedures, standards and safety. In some instances the monitoring of workers is all-encompassing, such as in call centres, where the workers generally accept a high level of surveillance in exchange for economic reward for their time and effort. In other settings this level of scrutiny would be unacceptable, such as in the creative arts where workers tend to flourish in a more relaxed environment. At London based marketing and advertising agency Bartle, Bogle and Hegarty (BBH), there is no discernable hierarchy or formal structure to the organisation. The physical working environment is open plan and highly relaxed. This is a deliberate attempt to create an atmosphere conducive to creativity, innovation and knowledge sharing.

Financial control is also important as it ensures that the organisation is managing its resources effectively. This has implications for cash flow, investment, credit and debt management and so on. Organisations of a certain size are required by law to submit audited accounts, but most effective organisations also put in place procedures for internal financial control and audits.

OXFORD
UNIVERSITY PRESS

What are the sources of control in a TQM system?

The main sources of control in TQM are:

- Quality by inspection
- Quality by manager control
- Quality by workforce control
- Quality by external control

What forms of resistance to a control system may be evident from workers?

Resistance to control may be evident in many different forms ranging from grudging acceptance to outright insubordination. Most workers accept a certain level of control and monitoring in the workplace as a necessary part of ensuring that outcomes are achieved. However, where there is a perceived imbalance between control and freedom then resistance may result. This may include failing to undertake the tasks set in a diligent manner, working to rule, doing the bare minimum, actively undermining the productive process by failing to adhere to procedures or regulations, or in extreme cases, taking industrial action. Managers need to communicate the reasons for implementing a control system and demonstrably show the benefits of it. This, along with continuous dialogue with workers, is more effective than imposing the control system on them.

What attributes does a control system require to be effective?

Effective control systems need to be:
- flexible;
- accurate;
- timely;
- objective.

Control systems also need to align with the planning process. Planning and control are inextricably linked and therefore, the control standards have to be designed as the planning process takes place.

The control system also needs to be flexible enough to cope with change.

Accuracy of information is another important characteristic of control systems. Managers rely on accurate data and information as a basis for decision making. The data and information should also be delivered in a timely manner to make it relevant, contemporary and suitable for use.

Finally, there needs to be an element of objectivity built into the system. Here, using just one set of indicators is often insufficient as it can lead to bias. In fact, it is good management practice to look beyond the numbers generated, and to assess the overall performance of the organization using a combination of statistical data, analytical skills and experience.