CONTROL MECHANISMS

Control mechanisms play an important role in any business organization, without which the roles of managers get constrained. Control is required for achieving the goals in a predefined manner because it provides the instruments which influence the performance and decision-making process of an organization. Control is in fact concerned with the regulations applied to the activities within an organization to attain expected results in establishing policies, plans, and practices.

Control mechanisms can be set according to functions, product attributes, geographical attributes, and the overall strategic and financial objectives.

Objectives of Control

There are three major objectives for having a control mechanism in an international firm. They are –

- To get data and clues for the top management for monitoring, evaluating, and adjusting their decisions and operational objectives.
- To get clues based on which common objectives can be set to get optimum coordination among units.
- To evaluate the performance metrics of managers at each level.

In 1916, Henri Fayol defined management control as follows –

“Control of an undertaking consists of seeing that everything is being carried out in accordance with the plan which has been adopted, the orders which have been given, and the principles which have been laid down. Its object is to point out mistakes in order that they may be rectified and prevented from recurring.”

Types of Control Mechanisms

There are various modes of control. The most influential ones are the following –

Personal Controls

Personal controls are achieved via personal contact with the subordinates. It is the most widely used type of control mechanism in small firms for providing direct supervision of operational and employee management. Personal control is used to construct relationship processes between managers at different levels of employees in multinational companies. CEOs of international firms may use a set of personal control policies to influence the behavior of the subordinates.

Bureaucratic Controls

These are associated with the inherent bureaucracy in an international firm. This control mechanism is composed of some system of rules and procedure to direct and influence the actions of sub-units.

The most common example of bureaucratic control is found in case of capital spending rules that require top management’s approval when it exceeds a certain limit.

Output Controls

Output Controls are used to set goals for the subsidiaries to achieve the targeted outputs in various departments. Output control is an important part of international business management because a company’s efficiency is relative to bureaucratic control.
The major criteria for judging output controls include productivity, profitability, growth, market share, and quality of products.

**Cultural Controls**

Corporate culture is a key for deriving maximum output and profitability and hence cultural control is a very important attribute to measure the overall efficiency of a firm. It takes form when employees of the firm try to adopt the norms and values preached by the firm.

Employees usually tend to control their own behavior following the cultural control norms of the firm. Hence, it reduces the dependence on direct supervision when applied well. In a firm with a strong culture, self-control flourishes automatically, which in turn reduces the need for other types of control mechanisms.

**Approaches to Control Mechanisms**

There are seven major approaches for controlling a business organization. These are discussed below –

**Market Approach**

The market approach says that the external market forces shape the control mechanism and the behavior of the management within the organizational units of an MNC. Market approach is applied in any organization having a decentralized culture. In such organizations, transfer prices are negotiated openly and freely. The decision-making process in this approach is largely directed and governed by the market forces.

**Rules Approach**

The rules approach applies to a rules-oriented organization where a greater part of decision-making is applied to strongly impose the organizational rules and procedures. It requires highly developed plan and budget systems with extensive formal reporting. Rules approach of control utilizes both the input and output controls in an organized and exclusively formalized manner.

**Corporate Culture Approach**

In organizations that follow the corporate culture approach, the employees internalize the goals by building a strong set of values. This value-syndication influences the operational mechanism of the organization. It has been observed that even when some organizations have strong norms of behavioural controls, they are informal and less explicit. Corporate culture approach requires more time to bring the aimed changes or adjustments in an organization.

**Reporting Culture**

Reporting culture is a powerful control mechanism. It is used while allocating resources or while the top management wants to monitor the performance of the firm and the employees. Rewarding the personnel is a common practice in such approaches of control. However, to get the maximum out of reporting approach, the reports must be frequent, correct, and useful.

**Visits to Subsidiaries**

Visiting the subsidiaries is a common control approach. The disadvantage is that all the information cannot be exchanged via visits. Corporate staff usually and frequently visit subsidiaries to confer and socialize with the local management. Visits can enable the visitors to collect information about the firm which allows them to offer advice and directives.

**Management Performance Evaluation**

Management performance Evaluation is used to evaluate the subsidiary managers for the subsidiary’s performance. However, as decision-making authority is different from the operational managers, some aspects of control cannot be managed via this approach. Slow growth rates of firms and risky economical and political environment requires this kind of approach.
Cost and Accounting Comparisons

Cost and Accounting Comparisons is a financial approach. It arises due to the difference in expenditure among various units of the subsidiaries. A meaningful comparison of the operating performances of the units is necessary to get the full output from this approach. Cost accounting comparisons use a set of rules that are applicable to the home country principles to meet local reporting requirements.

Constraints of Control Approaches

Control mechanisms can never be uniform in every country. International firms have to face severe constraints based on which they modify their control mechanisms in every country. Here is a list of major constraints that affect an organization in setting its managerial control mechanism —

- **Distance** – Geographical distances and various forms of cultural disparities is a big constraint of control systems. Nowadays, email and fax transmissions have replaced the human communication, changing the meaning of distance among units and employees of an organization.

- **Diversity** – It is hard to apply a common control system to everyone due to diversity. It requires the managers to be locally responsive to address the needs of the country in which the firm operates. Diverse attributes may exist in the form of labor, cost, currency, economic factors, business standards, etc.

- **Degree of Uncertainty** – Data relating to the reporting mechanism may be inaccurate and incomplete, raising serious challenges to control mechanisms. Due to uncertainties, control mechanisms must focus on setting goals and developing plans to meet the goals.