



Introduction of course

Commercial Banking Management II

Prepared by Dinh, T.N. Huy

May 2012



Chapter 3

Controlling and Evaluating Functions at CBs

Prepared by Dinh, T.N. Huy

June 2012



Agenda

1. Overview
2. Definition
3. Why CBs need Controlling and Evaluating
4. Requirements for Controlling & Evaluating
5. Functions
6. Controlling and Evaluating types
7. Process of Controlling & Evaluating
8. Distinguish Controlling and Auditing
9. Summary



Overview

- In modern banking nowadays, besides doing business to earn more profits for shareholders, management team at CBs also organize 2 functions:
 - + Controlling
 - + Evaluating



Basic Concepts

- Controlling definition, generally:

It is a process at CBs used by management team to exercise their authoritative, by creating understandings and practices which adopt to either business plans or predetermined standards



Roles of Controlling

- Controlling helps management team to direct and dominate the bank. So, it is one of intermediate management functions





Basic Concepts

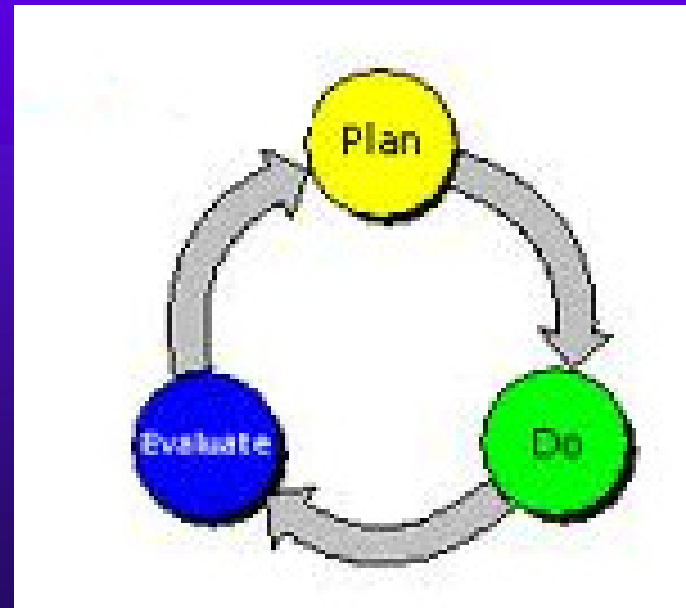
- Evaluating definition, generally:
It can be understood as a process at CBs involving people who use their expertise and management experience to evaluate candidates, employee, co-workers, management team and other processes at CBs





Roles of Evaluating

- Evaluation helps managers to assess the completing level of business plans





Some definitions

- Harold Koontz:

Controlling is the measurement and correction of performance in order to make sure that enterprise objectives and the plans devised to attain them are accomplished





Some definitions

- Henry Fayol (1916):

Control consists of verifying whether everything occurs in conformity with the plan adopted, the instructions issued, and principles established.....to point out weaknesses and errors in order to rectify them and prevent recurrence



Why CBs need Controlling and Evaluating

- Business risks such as credit risks in CBs have some features:
 - + May increase through life time of CBs
- Therefore, CBs pay attention to controlling activities



**CHANGE
AHEAD**



Why CBs need Controlling and Evaluating

- Commercial bank is a special business with some features:
 - + A wide labor force: hundreds or thousands of people
 - + A wide influence on financial aspects of businesses, households in both local and international markets
- So, CBs have to take care of evaluating functions

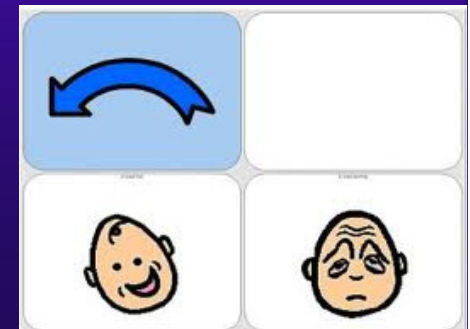


Why CBs need Controlling and Evaluating

- In general:
- + That CBs have good structure, organization and policies might help business & households sectors to earn more profit
- Consequently, CBs need to review controlling & evaluating functions

Requirements for Controlling and Evaluating

- Controlling function:
 - + Doing business needs to comply with laws, regulation in the country and industry
 - + It is one of managerial functions such as: planning, staffing, directing, organizing. So, it is done together with these functions





Requirements for Controlling and Evaluating

- Controlling function:
 - + Minimizing deviation from standards
 - + Errors are detected and reported
 - + Identifying unsatisfactory performance



Requirements for Controlling and Evaluating

- Evaluating function:
- + Business itself and business functions have to create values. That's why it needs to be evaluated
- + Key Performance Indicators (KPIs) might be used
- + Critical assessment needs to be objective



Types of Controlling

- Operational Control
- Business Control
- Strategic Control





Types of Controlling

- Operational Control
- It covers activities to manage services, products to minimize negative impacts of interacting day-to-day operations in CBs.





Types of Controlling

- Business Control
- This is an internal system established with a set of standards of measurements helping management team to do planning, comparing actual business results to predetermined standards, then measuring any deviations. Finally, taking actions to ensure that CB's resources used effectively to accomplish objectives.



Types of Controlling

- Strategic Control
- This is an activity performed by a specialized committee at CBs. The function includes tracking any errors during the implementation stage of strategies, then, proposing some adjustments





Controlling: Why it is important

- During the implementation stage of strategies of doing business, at CBs, there might be other strategies established.
- Therefore, controlling function might help management team to adjust it.



Discuss

- What are advantages of Controlling ? Of Evaluating?





Monitoring system

- At CBs, a monitoring system includes:
 - + Cameras
 - + Check in-Check out device
 - + Monitoring through reports



Types of Evaluating

- Job Evaluation
- Business Evaluation



Types of Evaluating

- Job Evaluation :

The technique to judge one job relative to other jobs in an organization

Before evaluating a job, it is necessary to do job analysis





Types of Evaluating

- Business Evaluation
- + Financial aspects
- + Non-financial aspects

Business Finance



...the freedom to grow



Types of Evaluating

- Non-Financial aspects:
 - + Here, it covers business functions evaluation, such as:
 - ++ Evaluating the potential effectiveness of a new products or services





Types of Evaluating

- Financial aspects:
- + For example:
- ++ Evaluating the liquidity or current ratios of a bank
- ++ Evaluating profitability of a bank





Performance measurement system

- Keegan (1989):

	Non-Cost	Cost
Internal	Design cycle time; % on time delivery; No of new products	Design cost; Input cost; Manufacturing cost
External	No of repeat buyers; No of customer complaints; Market share	R&D expenditure;



Functions of Controlling and Evaluating

- Controlling:
 - + Determine banks' rules and relevant instructions issued
 - + Measure deviation of actual results from standard performance



Functions of Controlling and Evaluating

- Evaluating:
 - + Formulating a judgement to evaluate business functions and jobs
 - + Based on Code of Corporate Governance to evaluate the quality of jobs
 - + Involving the evaluation of controlling functions



Controlling and evaluating process

- The process of evaluating job:

Determine job factors: Skills, Experience, Responsibilities, Working conditions

Rating and Giving marks for each job factor

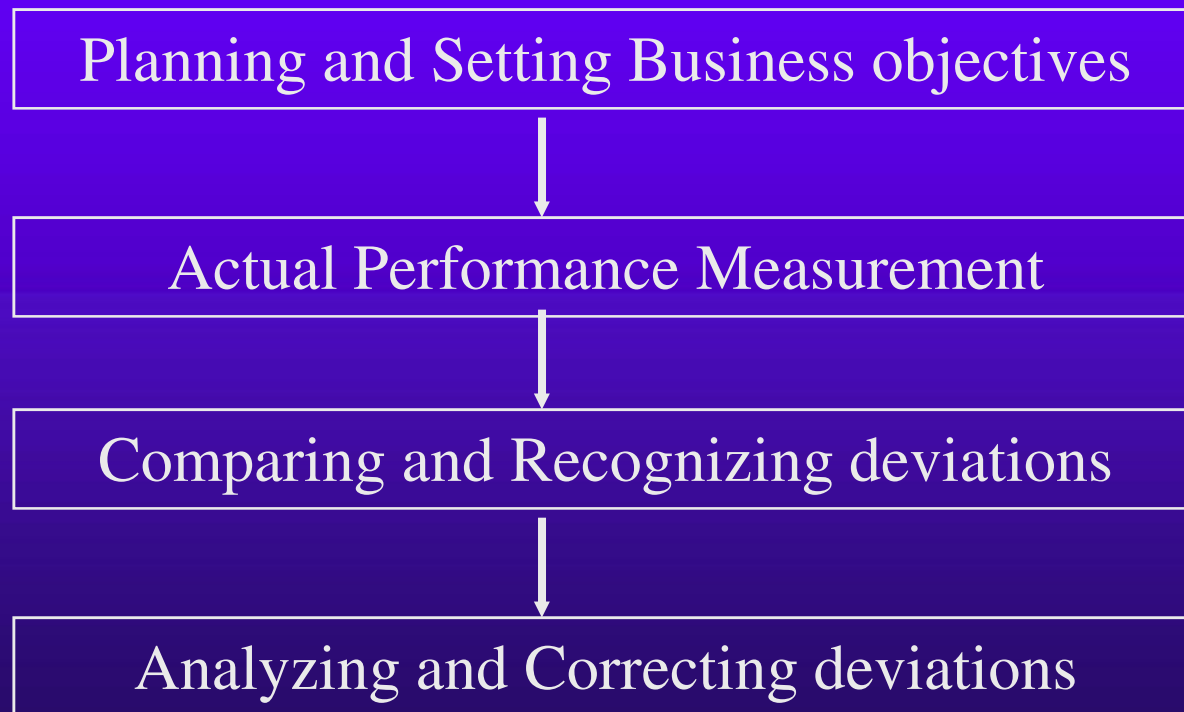
Ranking jobs & Comparing industry average

Setting compensation and salary



Controlling and evaluating process

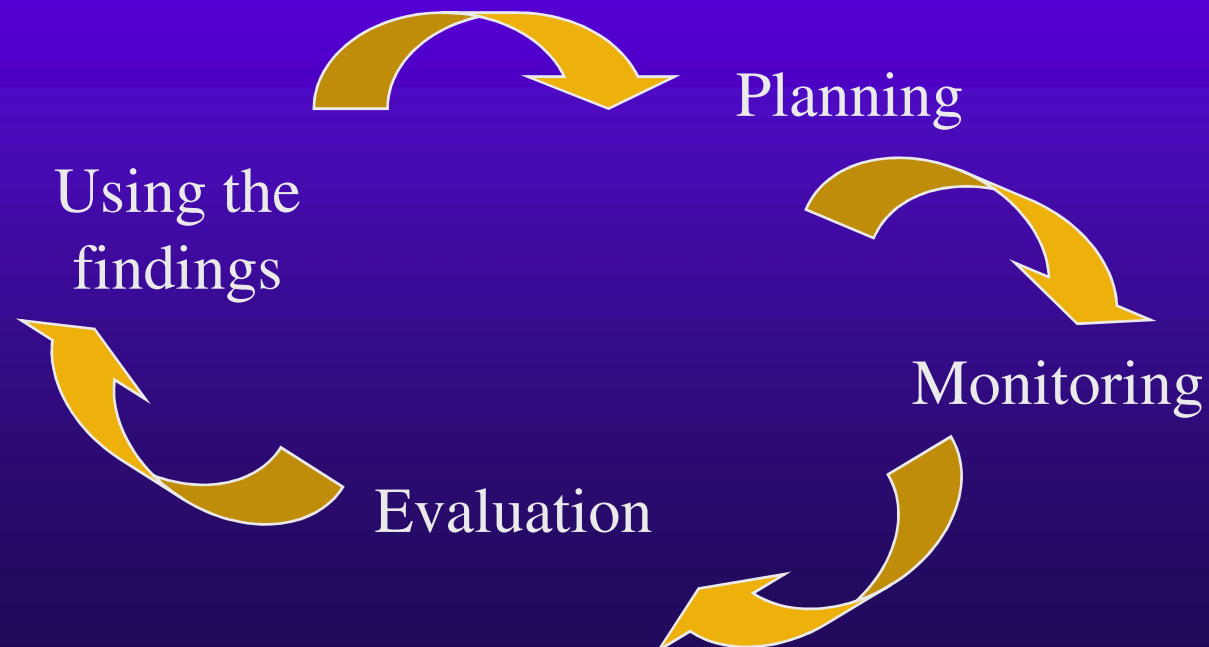
- The Process of Controlling:





Interaction of Evaluating and Controlling

- After controlling and monitoring, management team have enough information to proceed evaluating process





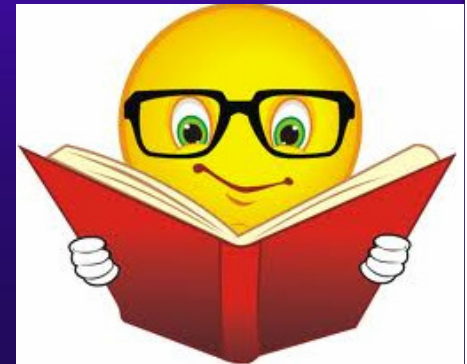
Controlling vs. Auditing

- Normally, auditing mainly deals with accounting or financial areas
- External Auditing is done 1 time in a year , while controlling is done more periodically



Summary

- Controlling is different from Evaluating and Auditing
- By evaluating, we know the significance of works
- In fact, controlling might be done by managers at all levels





References

1. Koch, Timothy W., & S.MacDonald, Bank management, 7th edition, the Dryden Press, NY
2. Nguyen Dang Don, Quản trị NHTM, 2010
3. Peter Rose, Commercial Bank Management
4. Jeff Madura, Financial Markets and Institutions, 7 or 8th edition
5. Dinh Tran Ngoc Huy, Modern Corporate Governance Principles and Models After Global Crisis
6. Dinh T.N.Huy, Mô phỏng TDNH, 2009 (cập nhật)



Multiple Choice Question

1. Which is NOT TRUE about controlling:
 - a. It includes comparing actual results to business plan
 - b. It includes comparing actual results to predetermined standards
 - c. Ensuring business resources used effectively is not its objective
 - d. None
 - e. All



Multiple Choice Question

2. Which is TRUE about controlling:
 - a. It helps managers to know the schedule of tasks done by employees
 - b. It helps managers to know about disadvantages and deviation in business functions to make adjustments
 - c. It helps management team to know where the business is going
 - d. All
 - e. None



MCQ-Answers

1. C
2. D