

# Controlling

## Meaning / concept of controlling

The control function monitors the business operations “ to keep things in line” and facilitates the integration of activities of activities. An organization cannot work without effective control mechanism. Controlling is a regulatory activity. It is rightly treated as the soul of management process. Controlling is the end function of management and also the core of management process.

To control means to see that there is no deviation between the expected results and the actual results. Every manager has to control the work for which he is accountable.

## Definitions

According to George Terry, “ Controlling is determining what is being accomplished, that is, evaluating the performance and , if necessary, applying corrected measures so that the performance takes place according to the plans.”

Koontz and O’Donnel,- “ Controlling is the measurement and correction of the performance of activities of subordinates in order to make that enterprise objective and the plans devised to attain them are being accomplished.”

J.L. Massie,-“Control is the process that measures current performance and guides it towards some predetermined goals.”

## Features

1. Closely linked with other management functions.- In controlling actual performance is measured against expected performance and remedial measures, if necessary are adopted. Control function is pervasive. It touches all other functions of management.
2. Used at all levels of management- controlling is necessary at all levels though its nature and extent changes at different levels of management.
3. Action- oriented system- The purpose of control systems to find out shortfalls in the performance. In case of shortfall, suitable action plan is prepared and implemented to

avoid such shortfall in future. Control system is not merely fault finding but it is remedial in character.

4. Control is the process of evaluation- the aim of the control system is to evaluate the actual performance against standard.
5. Regular and continuous activity- like other management functions, control is required to be exercised in a continuous manner for finding out possible deficiencies and for the introduction of remedial measures.
6. Control eliminates wastages- control technique avoids wastage of materials and human efforts by finding out deficiencies and adoption of suitable remedial measures.
7. Dynamic and forward- looking concept.- Control function is a dynamic one. It changes its techniques as per the changes in business environment. Control system is forward looking. It considers the past experiences and adjusts its functions accordingly.

Importance/ advantages/control function-

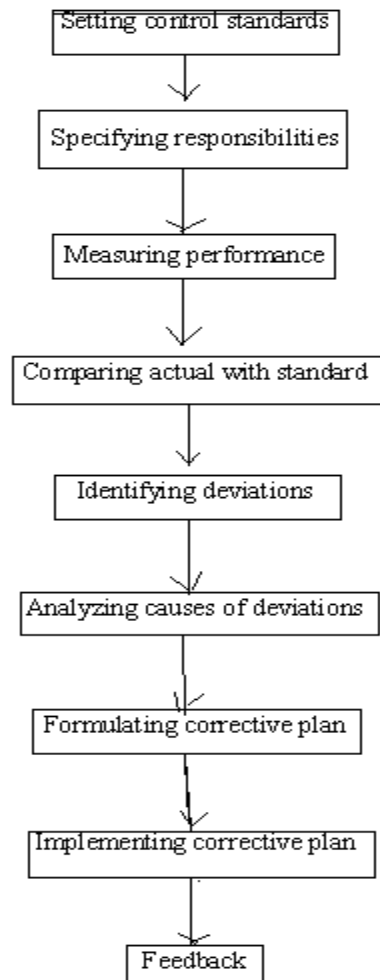
1. Facilitates achievement of targets- control system enables an enterprise to achieve its targets and goals with confidence as it raises the overall efficiency of a business.
2. Promotes coordination and efficiency- control system promotes coordination among departments by taking corrective measures. This increases overall efficiency.
3. Avoids deviations- Due to control mechanism, deviation between the expected and actual performance will be minimized.
4. Eliminates wastages- control system eliminates wastages of materials and human efforts. It creates discipline in the functioning of the enterprise and ensures optimum utilization of available resources.
5. Provides remedial measures- controlling facilitate the introduction of remedial measures. It avoids the repetition of shortfalls in the achievement of objectives.
6. Objectives oriented- controlling steers an enterprise through its changing environment towards its pre-determined objectives.
7. Introduces delegation/decentralization- control facilitates decentralization and delegation in an organisation.
8. Removes weak points- control identifies the weak points in the management process through feedback information.

9. Raises employee morale- control system improves the morale of employees and also goodwill of the organisation through the achievement of pre-determined objectives in terms of quality, costs etc.

#### Process of Control/ steps in control process

Process involves a series of actions that someone takes in order to achieve a particular target. Organizations generally undertake following steps to have an effective control over the operations of the organizations.

#### Steps on control process.



Following are the steps in the control process.

1. Setting control standards- the first step in the control process is laying down the standards. Standards specify what is expected. What is desired, what is acceptable and what is unacceptable. Control standards are based on the objectives of the organisation.
2. Specifying responsibilities- each and every person in the organisation should be explained about his or her duties and responsibilities. Accountability is necessary if control mechanism has to be effective.
3. Measuring performance- the next step is to measure the performance of employees wherever possible the performance should be quantified. This would make measurement objective and unbiased. Generally in an organisation the performance is measured in terms of profit, production in value or volume terms, sales etc.
4. Comparing actual with standard.-this is the 4<sup>th</sup> step. Here actual performance should be compared with standard. However while comparing, the difficulties which were not forecasted while setting the standards which were faced during implementation should be considered for fair evaluation.
5. Identifying deviations- the next step is identifying the deviations i.e. trying to find out in which areas and to what extent the actual performance varies with the standards. If deviations are not there i.e. if actual is quite similar to the standard then the organisation can assume that it is on the right track.
6. Analyzing causes of deviations- if the actual performance is not as per standard then the cause of such deviations should be found out. Analyzing variances helps in controlling. Whether the variance was due to uncontrollable factors should be found out. If not then the areas and reasons of variances should be clearly spelt out.
7. Formulating corrective plan- the plan should ensure that in future such deviations don't occur. If deviations are due to human errors then those should also be enlisted. If standards set are too high or too low then corrective plan should be formulated which would incorporate necessary changes in the standard.
8. Implementing corrective plan- the new plan might redefine the duties and responsibilities of staff, would reset standard and so on. The objective of a corrective plan is to re-lay standards for ensuring better and effective control.

9. **Feedback-** in this step the feedback is taken to see whether the control system is succeeded or not in improving the control.

### **Requirements of Effective Control System-**

1. **Simple-** A good control system should be simple to understand. Clarity ensures that there is no confusion in its implementation as everyone for whom it is devised knows what type of action or behaviour is expected from him or her.
2. **Economical-** an effective control system should be economical. In other words the benefit which the organisation is going to reserve due to the presence of the control system should for outweigh the cost involved.
3. **Comprehensive-** control system should not only cover each and every individual but should also cover each and every action and the activity in the organisation,
4. **Quick identification of deviation-** a good control system should be such that any deviation from the accepted behaviour or target could be quickly identified.
5. **Quantifiable-** another requirement of an effective control system is that the results, objectives, plans etc. are quantifiable. This facilitates control as the evaluator or the manager can easily and quickly find out whether there are any deviations from the targets.
6. **Flexible-** a good control system should be flexible as environmental factors are dynamic and keep on changing. Control system should be devised in such a manner that it is able to incorporate these changes.
7. **Facilitate achievement of objectives-** a good control system should facilitate achievement of objectives. It should not cause obstacles or delays in the achievement of objectives.
8. **Focus on critical areas-** a good system should focus on critical or important areas. Critical areas are those, which if unattended, can adversely affect the functioning of the organisation.
9. **Motivation-**a good control system should act as a motivator for whom it is devised. If the control system is fair, transparent and simple then it is likely to motivate individuals.

## Control techniques

Control techniques are the various skills or methods used to facilitate control over the operations.

### Control Techniques

<b>A. Traditional control Techniques</b>	<b>B. Modern control Techniques</b>
<b>1. Budgetary Control</b>	<b>1. PERT / CPM</b>
<b>2. Cost Control</b>	<b>2. Return on investment</b>
<b>3. Break-Even analysis</b>	<b>3. Management information system</b>
<b>4. statistical analysis</b>	<b>4. Responsibility accounting</b>
<b>5. internal audit</b>	<b>5. Managerial audit</b>
<b>6. internal check</b>	<b>6. Social audit</b>
<b>7. observation</b>	<b>7. Human Resource accounting</b>
	<b>8. Self Control</b>

#### **A. Traditional Control Techniques-**

- 1. Budgetary Control-** A budget is a numerical statement or estimate of future needs calculated for a definite period. It is quantitative expression of plan of action. Budget provides a yardstick to measure efficiency. Actual expenses can be compared with budgeted expenses.
- 2. Cost Control-** Standard costing marginal costing, cost control accounts and cost variance analysis helps controlling. Variations of actual costs from standard costs can be investigated and necessary corrective steps can be taken.
- 3. Break-Even Analysis-** Break-Even point is the point of no profit, no loss. It depicts the relationship of different volumes, costs, sales, price and sales mix of profit. Break -Even chart serves as a control aid in a number of ways. It predicts the profit at different levels of sales or production volume. It helps in making decisions.

4. **Statistical Control-** statistical reports are important tools of control. In order to find out the causes of deviations comparison of various ratios, averages, and percentages etc. of different years is undertaken. This is useful in controlling production, quality and inventory.
5. **Financial Statement-** All business organizations' prepare P & L A/C and B/S, when a comparative study is made of these financial statements for varying period, it shows trends of changes in the profit, expenses, Assets and Liabilities etc. such study helps a lot for controlling.
6. **Direct Supervision and observations-** the supervisor himself observes the employees and their work. This brings him in direct contact with the workers. Therefore many problems are solved during the time of supervision.

#### **B. Modern Control Techniques-**

1. **CPM & PERT-** critical Path Method and Programme Evaluations an Review Technique are network planning and diagramming techniques. The network indicates the sequence governing different activities. A new activity cannot start until the scheduled preceding event is completed. A network shows a number of parallel paths, longest of which is critical path. Until each activity time is fixed and entered into network diagram, critical path remains unknown. While completing the project one can compare actual time taken, activity by activity time taken, activity by activity, with pre-fixed time.
2. **Return on Investment-**Investment consisting of fixed assets and working capital used in business. Profit on the investment is a reward for risk taking. The excess of revenue over cost is profit. ROI is a measure of the financial performance of a business.
3. **Management information system-** In order to exercise control function effectively, managers need timely and accurate information, MIS generates data, process such data into information and provides the information to managers.
4. **Responsibility accounting-** Responsibility accounting as the title suggests, indicates that each person in the organisation is responsible for the cost he incurs. Here it is expected that each person knows how much should be the cost of the operation which he is involved in and how much actually is. In simple words each person is made responsible for the expense he incurs.

5. Management Audit – Management audit is an evaluation of management as a whole. It critically examines the entire management process consisting of planning, organizing, directing, staffing and controlling. An audit team collects data from past records, members and management, client and from employee's feedback and conducts the audit.
6. Social Audit- an organisation has to deal with various groups namely shareholders, employees, customers, government etc. Furthermore it has certain social obligations towards each group. Social audit involves finding out whether the organisation is fulfilling its social responsibilities towards various groups.
7. Human Resource accounting-` Human resource is the most important resource. So the organizations' have started feeling a need to record it. Human accounting involves measuring the cost involved in recruiting, selecting, training and developing human resource.