Business Studies Notes PDF

On

Controlling

(Class – 12 / Chapter- 8)

Controlling involves comparison of actual performance with the planned performance. If there is any difference or deviation, then finding the reasons for such difference and taking corrective measures or action to stop those reasons so that they don‘t re-occur in future and that organizational objectives are fulfilled efficiently.

Importance of Controlling:

- **Controlling helps in achieving organizational goals:** The controlling function measures progress towards the organizational goals and bring to light/indicates corrective action.
- **For Evaluating/Judging accuracy of standards:** A good control system enables management to verify whether the standards set are accurate or not by careful check on the changes taking place in the organizational environment.
- **Making efficient use of resources:** By the process of control, a manager seeks to reduce wastage of resources.
- **Improves employee's motivation:** A good control system ensures that employees know well in advance what they are expected to do & also the standard of performance. It thus motivates & helps them to give better performance.
- **Facilitating Coordination in action:** In controlling each department and employee is governed by predetermined standards which are well coordinated with one another. Control provides unity of direction.
- **Ensuring order and discipline:** Controlling creates an atmosphere of order and discipline in the organization by keeping a close check on the activities of its employees.

Limitations Of Controlling:

- **Difficulty in setting quantitative standards:** When standards cannot be measured, a control system loses some of its effectiveness.
- **Little control on external factors:** External elements such as government legislation, technical advancements, and competition, among others, are beyond the control of an organization.
- **Resistance from employees:** Employees, for the most part, despise being controlled by their bosses and they dislike being in constant vigilance of the management.
- **Costly affair:** Control is an expensive procedure because it necessitates a lot of money, time, and effort in terms of setting standards, measuring performance and correcting the deviations.

Nature of Controlling/Features of Controlling:

- **Goal oriented:** Controlling is directed towards accomplishment of organizational goals in the best possible manner.
- **Pervasive:** Controlling is an essential function of every manager and exercised at all levels of management.
- **Continuous:** It is not an activity to be pursued in the end only; it has to be done on a continous basis.
- **Controlling is looking back:** Controlling involves measurement of actual performance and its comparison with the desired performance. It is the process of checking and verification.
- **Controlling is forward looking:** It is related to the future because it seeks to improve future results on the basis of experience gained in the past.
- **Depends on planning:** It presupposes the existence of planning because without planning no control is possible.
- **Action oriented:** Control has no meaning if no corrective action is taken; So timely action should be taken to prevent deviations.

RELATIONSHIP BETWEEN PLANNING AND CONTROLLING

Planning and controlling are intertwined and mutually reinforcing in the sense that:

- Planning is required for effective control. The norm for controlling is set by plans. Managers have no influence over anything if the standards aren't defined ahead of time.
- Without controlling, planning is worthless. When control is exercised, it is fruitful. It detects any deviations and takes corrective action if necessary.
- Controlling assesses the efficiency of planning and aids in the implementation of remedial actions.
- Planning is forward-thinking, whereas controlling is backward-thinking. Planning is a future-oriented activity since it entails thinking ahead and establishing policies to maximize resource use in the future, which is why it is referred to as a forward-looking function.
- In controlling, we examine the employees' previous performance and compare it to the established requirements. If there are any discrepancies between real and expected performance or output, the controlling functions ensure that future actual performance meets expected performance. As a result, controlling is a function that looks ahead.
- As a result, planning and controlling are intertwined, and they walk hand in hand. Controlling becomes more successful because of planning, whereas planning enhances future controlling.

CONTROLLING PROCESS

- Setting Performance Standards
- Measuring of Actual Performance
- Compare Actual Performance with Standard
- Analysing Deviations
    - Critical Point Control
    - Management by Exception
- Taking Corrective Action

1. Setting Performance Standards: Standards are the criteria against which actual performance would be measured. Thus standards become the basis for comparison and the manager insists on following standards.

2. Measurement of Actual Performance: Performance should be measured in an objective and reliable manner which includes personal observation, sample checking. Performance should be measured in the same terms in which standards have been established, this will facilitate comparison.

3. Comparing Actual Performance with Standard: This step involves comparison of actual performance with the standard. Such comparison will reveal the deviation between actual and desired performance. If the performance matches the standards it may be assumed that everything is under control.

4. Analysing Deviations: The deviations from the standards are assessed and analysed to identify the causes of deviations.

- **Critical Point Control:** Control should be focused on key result areas (KRAs) that are crucial to an organization's success. These KRAs have been designated as important points.
- **Management by Exception:** Exceptional management Control by exception, often known as control by exception, is a key management control philosophy based on the belief that attempting to control everything leads to managing nothing. In other words, you can't control everything at the same time. For example, the company controller decides that corrective action is needed when the expenses are greater than $10,000 or 20% higher than projected. The goal of the management by exception approach is to only worry management with the most significant deviations from the business's planned course or performance.

5. Taking Corrective Action: The final step in the controlling process is taking corrective action. No corrective action is required when the deviations are within the acceptable limits. But where significant deviations occur corrective action is taken.

- Alarms are being installed.

- Equipment is redesigned or replaced.
- Tools are arranged which were needed for production.
- Work processes are being updated.
- In case of overestimation or underestimation of standards, the standards are set again.

TECHNIQUES OF MANAGERIAL CONTROL

There are two technique of managerial control
(i) Traditional techniques
(ii) Modern techniques

(I) Traditional Techniques:

- **Personal Observation:** It allows the management to gather firsthand knowledge, but it is time consuming and not applicable to all types of jobs
- **Statistical Reports:** Statistical analysis presents managers with important information about the organization's performance in the form of averages, percentages, ratios, correlation, and so on.
- **Break Even analysis:** It is a method for determining the link between expenses, volume, and profit. Breakeven is a point where the total revenue is equal to the total cost, hence no profit-no loss condition.
- **Budgetary Control:** It is a management control strategy in which all actions are scheduled in advance as budgets and actual results are compared to budgetary standards

(I) Modern Techniques:

- **Return on Investment:** Return on Investment (ROI) is a technique for determining whether invested capital was effectively employed to generate a decent level of return. It can be found by dividing net income with total investment.
- **Zero Based Budgeting:** It refers to a controlling technique where the budget is formed from scratch, and not referring to the previous budgets. Hence, this budget is prepared as per the current conditions.
- **Responsibility Accounting:** In this various responsibility centers are set up so as to enforce the responsibility control system. The four responsibility centers are:
    - **Cost centre:** A cost or expenditure centre is a part of a company for which a manager is responsible for the operations. For example, a manufacturing unit's production department. Through operational excellence, customer service, and increased product value, a cost centre indirectly contributes to a company's profit.
    - **Revenue Centre:** It is a division of a company that is largely responsible for revenue generation. For example, the gross income of a corporation is 100 if it sells a widget for 100 but only spends $25 to create it. Gross income is calculated at the end of each reporting cycle, which might be monthly or annual. The overall sales created during a given month are referred to as monthly gross revenue, whilst the entire sales generated over the course of a year are referred to as annual gross revenue.
    - **Profit Centre:** It is a part of a company whose manager is responsible for both revenue and expenses. A profit centre is judged on how much profit it generates, and it tries to boost profits by boosting sales or cutting costs. Manufacturing and sales are two departments that fall under the profit centre.
    - **Investment Centre**: It is responsible for not only profits, but also all the center's investments. Human resource and marketing departments are examples of departments that make up the cost centre.

- **Management Audit:** The term "management audit" refers to a systematic assessment of an organization's management performance.
- **PERT and CPM:**
  - PERT (Program Evaluation and Review Technique) and CPM (Critical Path Method) are key management approaches for planning, scheduling, and controlling complex project.
  - These strategies are particularly beneficial for planning, scheduling, and implementing time-bound projects that require the execution of a range of complicated, diversified, and linked tasks.

- **Management Information System:** A management information system (MIS) is a computer-based information system that provides data and support to help managers make better decisions. It's a crucial control strategy.

Managers benefit from MIS in the following ways:
- It makes information collection, management, and dissemination easier.
- It facilitates all levels of planning and control.
- It enhances the information quality.
- It ensures value for money.
- It helps to alleviate information overload.