BUSINESS STUDIES

Controlling

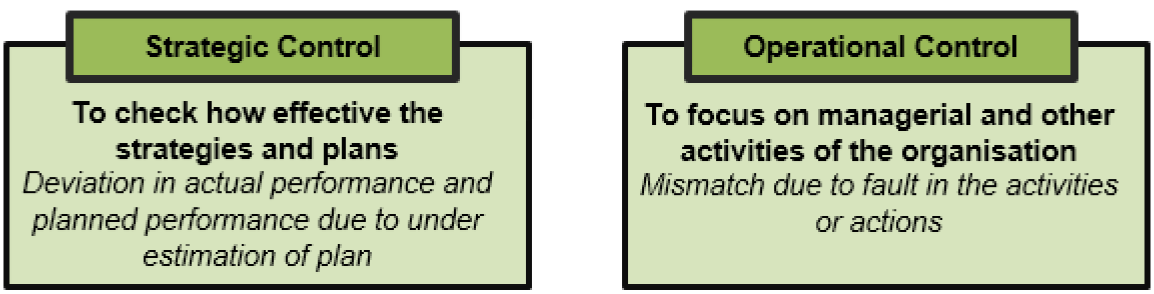
Topics Covered

- Concept of controlling
- Nature and importance of controlling
- Relationship between planning and controlling
- Controlling process
- Techniques of managerial control

Concept of Controlling

Controlling refers to the ***process of evaluation and assessment of the work done***. Under the process of controlling, standards are set for various tasks and activities. Accordingly, the various tasks and activities are evaluated against the set standards. Deviations from the set targets are identified, and corrective actions to be taken are decided. Thus, controlling refers to the process of ensuring that the ***various activities*** and ***tasks in the organisation*** are carried out according to the ***pre-defined goals and objectives.*** It ensures that deviations if any are identified and ***appropriate corrective action is taken.***

ASPECTS OF CONTROLLING



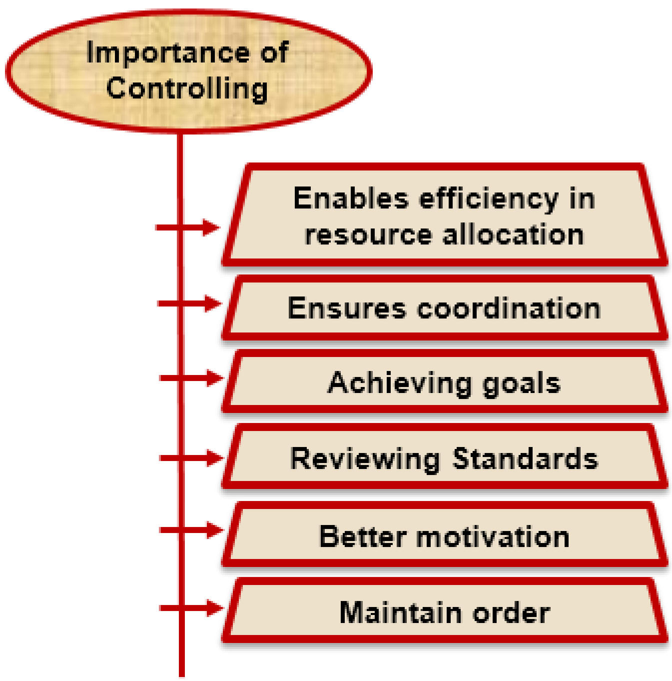
Nature of Controlling

1) ***Goal-oriented function:*** It ensures that everyone follows the plan or the work is accomplished as per the plan and tries to achieve the goals of the organisation.
2) **Pervasive function:** It is an activity performed not only by top level managers but also by managers working at all levels, i.e. top, middle and operational levels.
3) **Both backward and forward looking function:** The work which is done is assessed and deviations from the pre-determined standards are evaluated. Based on the deviations, the controlling function seeks to take the required corrective action. In this way, controlling evaluates the actual performance (by comparing it with) and guides future actions.
4) **Continuous function:** Controlling is an ongoing process. This function is carried out till the time an organisation survives.

Importance of Controlling in an Organisation

1) **Achieving goals**: Controlling ensures that ***various activities*** are ***carried out correctly according to the plans***. It ensures that deviations if any are identified and appropriate ***corrective action*** is taken. This helps the organisation to be on track and achieve its goals.
2) **Reviewing standards**: An effective control system ensures that the ***standards are set accurately***. As the business environment changes, it ensures that the standards are also reviewed so as to ***adapt to the changes taking place.***

3) **Enables efficiency in resource utilisation**: An effective control system ensures that there is ***minimum wastage of resources***. In other words, it ensures that the resources are ***utilised optimally*** and in the most efficient manner.
4) **Better motivation**: With controlling, employees know ***what is expected from them and how their performance would be evaluated.*** This clarity motivates employees to perform better.
5) **Maintain order**: Controlling helps to keep a close watch on the activities and behaviour of employees. In this way, it helps in ***maintaining order and discipline*** in the organisation.
6) **Ensures coordination**: With proper controlling, the ***efforts of the various departments can be unified*** towards the common goals and objectives of the organisation. The existence of predefined standards of evaluation ensures coordination in the activities of various departments.



Limitations of Controlling Function

The controlling function has some limitations as well. Points highlighting the problems faced in an effective control system:

1) **Setting standards in quantitative terms**: For an effective control system, it is important that the standards are set in ***measurable or quantitative terms***. However, it may not be possible in every case. When the standards are ***not set*** **in quantitative terms**, it becomes ***difficult to evaluate*** performance.
2) **No control over external forces**: An organisation cannot control external forces such as government policies and technical changes. A ***change*** in such ***forces changes the standards of evaluation*** and thereby the entire control system.
3) **Resistance**: Close and continuous monitoring may receive **resistance from employees** which would make controlling difficult.
4) **Expensive**: A controlling system involves cost in terms of money, time and effort. A ***small organisation*** may ***not be able to afford the costs*** involved in the control system.

Relationship between Planning and Controlling

1) **Nature and concept**
   - Controlling is ***closely related*** to planning. A good control system requires set standards for evaluation.
   - These standards are provided by the plans defined by the organisation. In other words, **plans serve as the base for controlling.**
2) **Interdependent and interlinked**
   - Controlling is ***essential for effective implementation*** of plans. It is essential to keep a close watch on the plans, identify any deviations and take appropriate corrective actions. ***Without proper controlling, planning would be futile.*** In a similar manner, planning forms the base for controlling. ***Without planning, there would be nothing to control.***
   - Controlling is done only when there are ***predetermined standards*** against which evaluation can be done.
   - While ***planning*** involves intellectual thinking, decision making and ***deciding a course of action***, **controlling** ensures that plans take ***the required course of action***.
3) **Both are backward and forward looking**
   - Both concepts of planning and controlling are interlinked as they are **forward looking** and ***backward looking.*** Planning is a process wherein it is decided what is to be done and accordingly deciding the required course of action. In other words, planning involves ***deciding the goals and objectives*** which are to be achieved and deciding the actions through which they are to be achieved. In this way, planning helps in ***predicting future actions;*** thus, it can be said to be ***looking ahead.***
   - As against planning, the controlling function involves ***assessing and evaluating past performance*** in order to figure out any deviations in pre-defined standards. As controlling assesses past performance, it can be said to be ***backward looking.***
   - However, it must be remembered that planning decides the goals and actions for the future, but these decisions are taken on the basis of experiences and previous controlling actions. Thus, ***planning involves looking back as well.***
   - In a similar manner, controlling not just involves assessing past performance but also ***decides corrective actions*** to be taken (in the future) and forms the base for plans.
   - Thus, the controlling function looks forward as well.
   - Hence, it can be concluded that both planning and controlling are forward looking as well as backward looking.

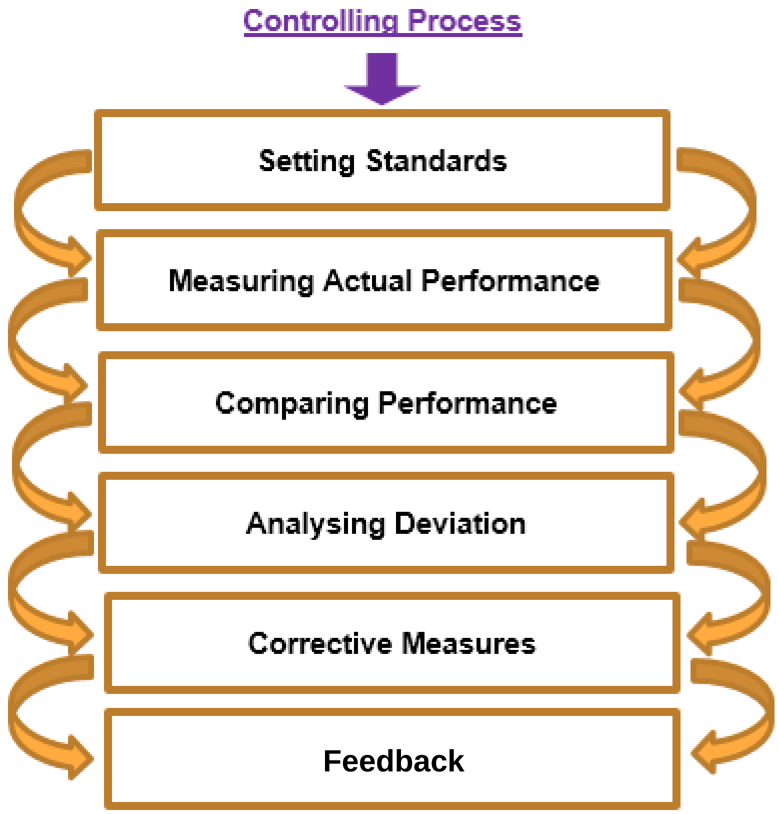
Process of Controlling

Steps involved in the controlling process:

1) **Setting standards**
   - The first step is setting standards against which the ***actual performance is evaluated***.
   - The standards can be in both ***qualitative terms*** (such as improved coordination, higher goodwill) and ***quantitative terms*** (such as sales targets, production targets).
   - It must be kept in mind that the set standards should ***facilitate easy comparison***.
   - Set standards need to be flexible enough to cope with changes in the business environment.
2) **Measuring actual performance**

- The next step in the controlling process is to measure the ***performance of the various activities***. For this, various ***techniques can be used*** such as personal observation and performance reports.
- As far as possible, performance needs to be measured in the same units in which standards are set.
- This measurement should be ***exact and reliable*** such that it facilitates easy comparison with the set standards.
- Moreover, the measurement of performance can be at ***various stages in the activity*** or at the ***completion of the activity.***

3) **Comparing performance**
    - After the actual performance is measured, it is then ***compared with the pre-defined standards***.
    - This helps in assessing whether there are ***any deviations/deficiencies in performance.***
    - Accordingly, it helps in ***identifying the required corrective actions*** to be taken.
4) **Analysing deviation**
    - With the comparison of the actual performance with the set standards, the ***deviations in performance are identified.*** For analysing deviations, the following methods can be used:
        - ***Critical point control***: According to this technique, rather than controlling all the activities in the management, only the key result areas (KRAs) which affect the entire organisation should be focused on.
        - ***Management by exception***: According to this technique, only significant deviations which are above an acceptable range should be controlled. An attempt must not be made to control everything.
    - Deviations should not only be identified but their ***causes must also be recognised***. Some causes for deviations can be infeasible standards, deficiencies in process or dynamic business environment.
5) **Corrective measures**
    - In case ***deviations are beyond the acceptable range***, it becomes necessary to take corrective action.
    - It must be ensured that the deviations do not occur again.
6) **Feedback**
    - The controlling function ***does not end*** by taking ***corrective action*** as it is a ***continuous process***.
    - After suggesting corrective measures, a ***feedback report is prepared***.
    - ***List of reasons for deviation of plans*** or for inefficiency in the overall working of an organisation and **corrective measures** are specified in the feedback report.
    - It acts as a base to ***establish the standard for the next year,*** and the controlling process again starts from the initial step.



Techniques of Managerial Control

The techniques of managerial control can be classified in two categories as *Traditional Techniques and Modern Techniques.*

A. Traditional techniques have been in use by managers since long ago. The following are traditional techniques of managerial control:

1) **Personal observation:** Under this technique, managers directly oversee the work done. It ensures that ***managers get the right information***, and prompts workers to perform up to the mark. However, this technique proves to be very ***time consuming*** and cannot be used in cases where a large number of tasks or activities are to be performed.
2) **Statistical reports:** A statistical analysis of the performance is done in the form of ***averages, ratios and percentages.*** Such statistical analysis helps in ***easy comparison*** of actual performance with set standards and also with past performance.
3) **Breakeven analysis:** It comprises a study of relationship between ***costs, volume and profits***. Under this technique, the costs and profits at various levels of quantity are studied. Accordingly, the level of output where the ***profit is maximised is identified***. Breakeven is said to occur when there is neither profit nor loss. That is the total revenue earned by the organisation equals the total cost incurred.
4) **Budgetary control:** Under the technique of budgetary control, budgets are prepared for each activity and operation in the organisation. Here, the term budget refers to defining the goals and objectives which are to be achieved in quantitative terms. Then the ***actual results of the activities are compared with the budgetary standards***. Accordingly, the work done is assessed and evaluated. Deviations from the set standards are identified and corrective actions are decided.

B. **Modern techniques** refer to techniques which are recent in origin. The following are modern techniques of controlling:

1) **Return on investment:** Return on investment refers to the ***benefits from investment***. In other words, it is an assessment of whether the investment is beneficial. In an organisation, managers use this technique for comparing the performance of various departments or for comparing present actions and past performance.
2) **Ratio analysis:** Various ratios are calculated to ***analyse financial statements.*** The most commonly used ratios are as follows:
   - ***Liquidity Ratio***: Analyses the short-term solvency of a business
   - ***Solvency Ratio*****:** Evaluates the long-term solvency of a business
   - ***Profitability Ratio*****:** Determines the position of the business with regard to profitability
   - ***Turnover Ratio*****:** Analyses whether the activities are carried out efficiently
3) **Responsibility accounting:** Under the system of responsibility accounting, various divisions in the organisation are ***set up as responsibility centres***. Each division is given a target and it is the responsibility of the head of the division to ***achieve the set target***. Different types of responsibility centres in an organisation can be ***cost centre, investment centre, profit centre and revenue centre.***
4) **Management audit:** Under this technique, a ***systematic assessment*** is made of the overall work and activities of the management of the company. The basic objective of this technique is to ***evaluate*** efficiency and effectiveness in the tasks of the management. Accordingly, it helps in identifying the areas which ***require corrective actions***.
5) **PERT and CPM:** Programme Evaluation and Review Technique (PERT) and Critical Path Method (CPM) are based on network analysis. Under these techniques, the entire task is divided into various ***smaller activities.*** Each activity is then accorded a ***timeline and a cost estimate***. In this way, it helps in effective execution of the tasks and activities.
6) **Management and information system:** Management Information System (MIS) is ***a computer-based controlling technique*** wherein managers are provided with timely data and information so as to help in the ***decision-making process.*** MIS proves to be cost effective in terms of information management.