#### UNIT 8

## CONTROLLING

## Meaning & Definition

Controlling means ensuring that activities in an organisation are performed as per the plans. Controlling also ensures that an organisation's resources are being used effectively and efficiently for the achievement of predetermined goals.

It can be defined as comparison of actual performance with the planned performance

The controlling functions find out how far actual performance deviates from standards, analyses the causes of such deviations and attempts to take corrective actions based on the same.

### Importance of Controlling:-

- Controlling helps in achieving organisational goals: The controlling function measures progress towards the organisational goals and brings to light/indicates corrective action.
- 2. **Judging accuracy of standards**: A good control system enables management to verify whether the standards set are accurate or not.
- Making efficient use to resources By the process of control, a manager seeks to reduce wastage of resources.
- 4. Improves employees motivations: 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 & help them to give better performance.
- Facilitating Coordination in action: In controlling each department and employee is governed by predetermind standards which are well coordinated with one another.

 Ensuring order and discipline: Controlling creates an atmosphere of order and discipline in the organisation by keeping a close check on the activities of its employees.

## **Limitations of Controlling**

- Little Control on external factors: Generally no exterprise can control
  external factors such as government policies, technological changes,
  competitions etc.
- Resistance from employee Control is often resisted by employees. They see it as a restriction on their freedom.
- Costly affair: Control is a costly affair as it involves a lot of expenditure time and efforts.
- Difficulty in setting quantitative standards: Control system loses some
  of its effectiveness, when standards cannot be defined in quantitative
  terms. In the absence of quantitative standards, comparison with
  standards becomes difficult.

# Relationship between Planning and Controlling:

Planning and controlling are interrelated and infact reinforce each other in the sense that :-

- 1. Planning is pre-requisite for controlling. Plans provide the standard for controlling. Thus, with out planning, controlling is blind.
- 2. Planning is meaningless without controlling. It is fruitful when control is exercised.
- 3. Effectiveness of planning can be measured with the help of controlling.
- 4. Planning is looking ahead & controlling is looking back.

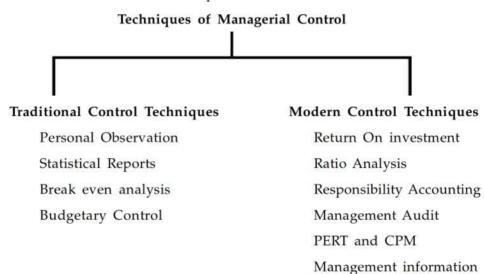
Thus planning & controlling cannot be separated. The two are supplementary functions which support each other for successful execution of both the functions.

Planning makes controlling effective where as controlling improves future planning.

### **Controlling Process:**

Setting performance Standards: Standards are the criteria against which
actual performance would be measured. Thus standards serve as
bencemarks.

- Measurement of Actual performance: Performance should be measured in an objective and reliable manner. Which include personal observation, sample checking.
- Comparing Actual performance with standard: This steps involves comparison of actual performance with the standard. Such comparison will reveal the deviation between actual and desired performance.
- 4. **Analysing Deviations -** The deviations from the standards are assessed and analysed to identify the causes of deviations.
- 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.



## Traditional Techniques :-

Traditional techniques are those which have been used by the companies for a long time and are still being used.

### Modern Techniques :-

Modern techniques of controlling are those which are of recent origin. These techniques provide refreshingly new thinking on the way in which various aspects of an organisation can be controlled.

**Budgetary Control**: It is a technique of management control in which all operation are planned in advance in the form of budget & actual result are compared with budgetary standard.

Types of Budget (i) Sales Budget, Production Budget etc.

## **Budgetary Control:**

A budget reflects the policy for the specified period. The most common types of budgets used by an organisation are sales budget, production budget, cash budget etc.

Budgetary control is a technique of managerial control in which all operation are planned in advance in the form of budgets and actual results are compared with budgetary standards. This comparison reveals the necessary action to be taken so that organisational objectivies are accomplished.

Modern Techniques of Managerial Control:

(i) ROI Return an investment

$$ROI = \frac{Net Income}{Sale} \times \frac{Sales}{Total Investments}$$

(ii) Ratio Analysis: Liquidity ratios; Solvency ratios;

Profitability ratios; Turnover ratios.

PERT: Programme evaluation & review techniques.

CPM: Critical path method

#### MIS: Management Information System

 It is computer based information system that provides support & information for effective managerial decesion making.

(ii) It servis as an important control technique by providing data & information to the managers at the right time so that appropriate corrective action may be taken in case of deviation from standards.

#### One Mark Question :-

- 1. Explain the meaning of controlling.
- Write the first step of controlling process.
- 3. Mention any one features of good controlling system.
- 4. What are the two types of deviations.
- Which principle of management control is based on the belief that an attempt to control everything results in controlling nothing.

### 3-4 Marks Questions

- 6. Planning is looking ahead and controlling is looking back. Explain.
- 7. Controlling function of management is a pervasive function. Explain.
- 8. What is meant by Budgetary control?
- 9. Corrective action is essence of control. Explain.

### 5-6 Mark Questions:

- 10. Explain the various steps involved in the process of control.
- 11. Explain the importance of controlling is an organisation.
- 12. What is break-even-analysis? How it is an effective technique of control.
- Planning and controlling are mutually interrelated and inter-dependent activities. Explain.
- 14. What are the advantages of Budgetary Control?
- 15. Explain the limitations of controlling?
- 16. Explain any two Traditional techniques of controlling.
- 17. Explain any two Modern techniques of controlling.