



# learnkwniy

## CHAPTER 8

### CONTROLLING

## **MEANING OF CONTROLLING**

**Controlling is one of the important functions of a manager. In order to seek planned results from the subordinates, a manager needs to exercise effective control over the activities of the subordinates. In other words, Controlling means ensuring that activities in an organisation are performed as per the plans. Controlling also ensures that an organization's resources are being used effectively and efficiently for the achievement of predetermined goals.**

## **IMPORTANCE OF CONTROLLING**

**Control is an indispensable function of management. Without control the best of plans can go away. A good control system helps an organisation in the following ways:**

**(i) Accomplishing organizational goals:** The controlling function measures progress towards the organisational goals and brings to light the deviations, if any, and indicates corrective action. It, thus, guides the organisation and keeps it on the right track so that organisational goals might be achieved.

**(ii) Judging accuracy of standards:**

**A good control system enables management to verify whether the standards set are accurate and objective. An efficient control system keeps a careful check on the changes taking place in the organisation and in the environment and helps to review and revise the standards in light of such changes.**

**(iii) Making efficient use of resources:** By exercising control, a manager seeks to reduce wastage and spoilage of resources. Each activity is performed in accordance with predetermined standards and norms. This ensures that resources are used in the most effective and efficient manner.

**(iv) Improving employee motivation:** A good control system ensures that employees know well in advance what they are expected to do and what

are the standards of performance on the basis of which they will be appraised. It, thus motivates them and helps them to give better performance.

**(v) Ensuring order and discipline:** Controlling creates an atmosphere of order and discipline in the organisation. It helps to minimize dishonest behaviour on the part of the employees by keeping a close check on their activities.

**(vi) Facilitating coordination in action:** Controlling provides direction to all activities and efforts for achieving organisational goals. Each department and employee is governed by predetermined standards which are well coordinated with one another. This ensures that overall organisational objectives are accomplished.

## **LIMITATIONS OF CONTROLLING**

Although controlling is an important function of management, it suffers from the following limitations.

**(i) Difficulty in setting quantitative standards:** Control system loses some of its effectiveness when standards cannot be defined in quantitative terms. This makes measurement of performance and their comparison with standards a difficult task. Employee morale, job satisfaction and human behaviour are such areas where this problem might arise.

**(ii) Little control on external factors:** Generally an enterprise cannot control external factors such as government policies, technological changes, competition etc.

**(iii) Resistance from employees:** The business environment under goes a constant change. Latest technique of controlling have to be used in order to face this change. However, the employees oppose these techniques.

**(iv) Costly affair:** Control is a costly affair as it involves a lot of expenditure, time and effort. A small enterprise cannot afford to install an expensive control system. A small enterprises cannot afford to install an

expensive control system. The manager should employ only those controlling technique which yield profits more than their cost.

## **RELATIONSHIP BETWEEN PLANNING AND CONTROLLING**

### **(I) Interdependence between Planning and Controlling**

**1. Planning is meaningless without controlling:** - It has been said that planning can be successful only in the presence of controlling. It means that if the control is not present it is useless to have planning.

If the process of controlling is taken away from management no person working in the enterprise will take it seriously to work according to the plans and consequently, the plan will fails.

**2. Controlling is blind without planning:** - Under the system of controlling actual work performance is compared with the standards. Hence if standard are not determined there is no justification left for control, and the standard are determined under planning. It is, therefore, said that control is blind without planning or it is without any base.

### **(II) Difference between Planning and Controlling**

**1. Planning is looking ahead whereas Controlling is looking back:** - Plans are always formulated for future, and determines the future course of action for the achievement of objectives laid down. On the contrary, Controlling is looking back because manager tried to find out, after the work is completed, whether it has been done according under it a standards or not. It is this clear that planning looks ahead and controlling looks backward or in the past.

The difference between planning and controlling can be stated in the reverse position also. It means "Planning is looking back and Controlling is looking ahead." It means planning is called looking back because the plans are basis of the happenings in the past or on the basis of experience. On the other

hand, controlling evaluates the work done in the past but under it corrective action is taken in respect of future.

**2. Planning is the First Function and Controlling is the last function of managerial process:** - The managerial process moves in a definite sequence- like planning, organising, staffing, directing, and controlling. This sequences shows that planning is the first step in the managerial process and Controlling happens to be the last step.

## **CONTROLLING PROCESS**

Controlling is a systematic process involving the following steps.

1. Setting performance standards
2. Measurement of actual performance
3. Comparison of actual performance with standards
4. Analysing deviations
5. Taking corrective action

### **Step 1: Setting Performance Standards:**

The first step in the controlling process is setting up of performance standards. Standards are the criteria against which actual performance would be measured. Thus, standards serve as benchmarks towards which an organisation strives to work.

Standards can be set in both quantitative as well as qualitative terms.

(i) **Quantitative Standard:** They are the standards which are shown with the help of figures. For examples, standards set in terms of cost to be incurred, revenue to be earned, product units to be produced and sold, time to be spent in performing a task, all

(ii) **Qualitative Standard:** They are the standards which cannot be shown in the figures. Examples improving goodwill and motivation level of employees are examples of qualitative standards.

## **Factor to be considered while deciding standards**

- 1. Set standards would be in precise quantitative terms as this would make their comparison with actual performance much easier.**
- 2. Standard should be measurable.**
- 3. Standard should be flexible so that changes can be introduced according to the changing situation.**
- 4. Standard should be simple and clear so that the people for whom they are laid down should understand them easily.**

## **Step 2: Measurement of Actual Performance**

Once performance standards are set, the next step is measurement of actual performance. Performance should be measured in an objective and reliable manner.

There are several techniques for measurement of performance. These include personal observation, sample checking, performance reports, etc. As far as possible, performance should be measured in the same units in which standards are set as this would make their comparison easier.

It is generally believed that measurement should be done after the task is completed. However, wherever possible, measurement of work should be done during the performance.

Measurement of performance of an employee may require preparation of performance report by his superior. Measurement of a company's performance may involve calculation of certain ratios like gross profit ratio, net profit ratio, return on investment, etc., at periodic intervals. Progress of work in certain operating areas like marketing may be measured by considering the number of units sold, increase in market share, etc., whereas, efficiency of production may be measured by counting the number of pieces produced and number of defective pieces in a batch.

## **Step 3: Comparing Actual Performance with Standards**

**This step involves comparison of actual performance with the standard. Such comparison will reveal the deviation between actual and desired results. Comparison becomes easier when standards are set in quantitative terms.**

## **Step 4: Analysing Deviations**

**Some deviation in performance can be expected in all activities. It is, therefore, important to determine the acceptable range of deviations. Also, deviations in key areas of business need to be attended more urgently as compared to deviations in certain insignificant areas.**

### **1. Critical Point Control**

**It is neither economical nor easy to keep a check on each and every activity in an organisation. Control should, therefore, focus on key result areas (KRAs) which are critical to the success of an organisation. These KRAs are set as the critical points. If anything goes wrong at the critical points, the entire organisation suffers.**

### **2. Management by Exception:**

**Management by exception, which is often referred to as control by exception, is an important principle of management control based on the belief that an attempt to control everything results in controlling nothing. Thus, only significant deviations which go beyond the permissible limit should be brought to the notice of management.**

### **Advantages of Critical Point Control**

- 1. It saves the time and efforts of managers as they deal with only significant deviations.**
- 2. It focuses managerial attention on important areas.**
- 3. The routine problems are left to the subordinates. Management by exception, thus, facilitates delegation of authority and increases morale of the employees.**
- 4. It identifies critical problems which need timely action to keep the organisation in right track.**

## **Step 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 acceptable limits. However, when the deviations go beyond the acceptable range, especially in the important areas, it demands immediate managerial attention so that deviations do not occur again and standards are accomplished.**

**Corrective action might involve training of employees if the production target could not be met. Similarly, if an important project is running behind schedule, corrective action might involve assigning of additional workers and equipment to the project and permission for overtime work. In case the deviation cannot be corrected through managerial action, the standards may have to be revised.**

learnkwiny