CBSE CLASS 12 BUSINESS STUDIES

CHAPTER – 8

CONTROLLING

REVISION NOTES

CONTROLLING

"Managerial Control implies the measurement of accomplishment against the standard and the correction of deviations to assure attainment of objectives according to plans."

Koontz and O' Donnel

MEANING

Controlling is one of the management function, which involves setting standards, measuring actual performance and taking corrective action. Controlling involves comparison of actual performance with the planned performance

IMPORTANCE OF CONTROLLING

1. Controlling helps in achieving organizational goals: The controlling function measures progress towards the organizational goals and indicates deviations if any to take corrective action.

2. Judging accuracy of standards: An efficient control system enables management to verify whether the standards set are accurate or not by carefully checking the changes taking place in an organizational environment.

3. Making efficient use of resources: Efficient utilization of resources through controlling process enables a manager to reduce wastage of resources.

4. Improving employees motivation: An efficient control system ensures that employees know well in advance what they are expected to do & also the standards of performance. It thus motivates & helps them to give better performance.

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

6. Facilitating Coordination in action: Predetermined standards are set for governing each department and employee in an organisation.

LIMITATIONS OF CONTROLLING

1. Difficulty in setting quantitative standards: Control system loses some of its effectiveness when standards cannot be quantified.

2. Little control on external factors: An organisation cannot control external factors such as government policies, technological changes, competition etc.

3. Resistance from employees: Mostly employees resist controlling by managers.

4. Costly affair: Control is a costly process as it involves a lot of expenditure, time and effort.

FEATURES OF CONTROLLING

1. Goal oriented
2. Pervasive

3. Continuous
4. Controlling is looking back the performance achieved by employees
5. Is a forward looking function
6. Depends on planning
7. Action oriented
8. Primary Function of Management
9. Brings back management cycle back to planning

RELATIONSHIP BETWEEN PLANNING AND CONTROLLING

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

- Planning is a pre-requisite for controlling. Plans set the standard for controlling. If the standards are not set in advance managers have nothing to control.

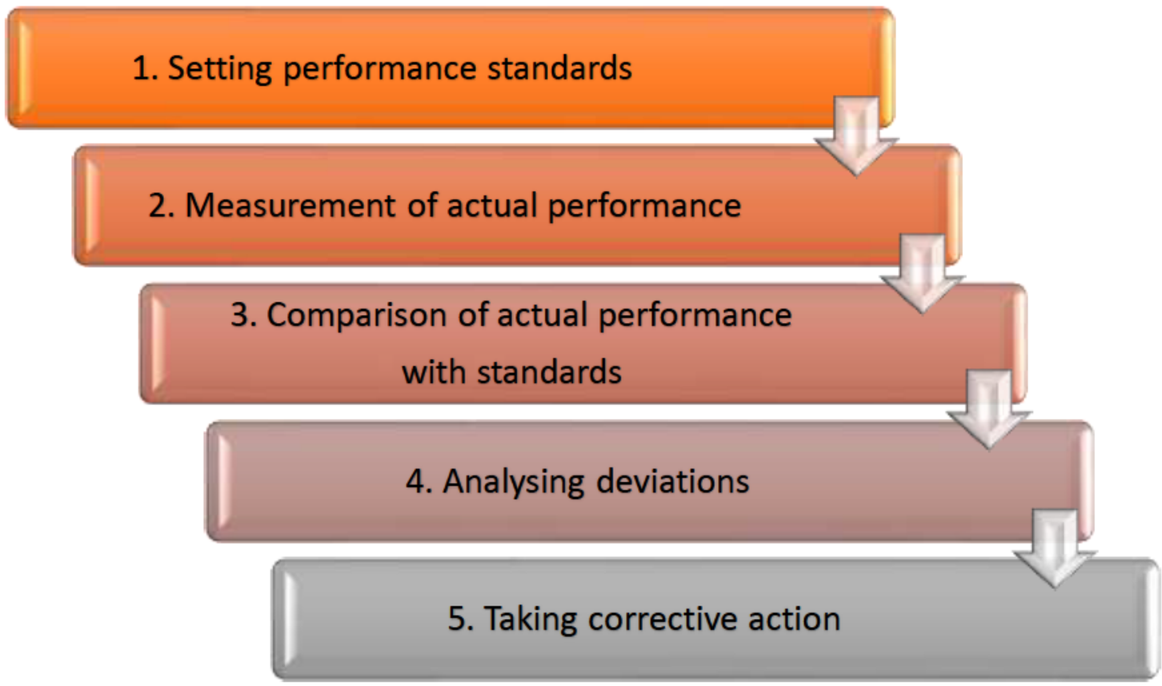
- Planning is meaningless without controlling. It is fruitful when control is exercised. It identifies deviations if any and initiates corrective measures.

- Controlling measures the effectiveness of planning and helps in taking corrective actions.

- Planning is looking ahead and controlling is looking back. **Planning** is a future oriented function as it involves looking in advance and making policies for the maximum utilization of resources in future that is why it is considered as forward looking function. In **controlling,** we look back the performance already achieved by the employees and compare it with the set standards. If there are any deviations in actual and standard performance or output then controlling functions makes sure that in future actual performance matches with the planned performances. Therefore, controlling is also a forward looking function.

- Thus, planning & controlling are inter related. Planning makes controlling effective whereas controlling improves future planning.

CONTROLLING PROCESS



1. Setting Performance Standards:

- Standards are the criteria against which actual performance can be measured.
- Standards are the benchmarks towards which an enterprise strive to work.
- Due to changes in business environment the standards should be flexible enough to be modified according to the situation

2. Measurement of Actual Performance:

- First performance standards are set and then actual performance is measured.
- Performance should be measured in an objective and reliable manner which includes personal observation and sample checking.
- Performance is to 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.
- 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 to identify the acceptable range of deviations.

(a) Critical Point Control: Control should focus on key result areas (KRAs) which are critical to the success of an organisation. These KRAs are set as the critical points.

(b) Management by Exception: Management by exception is often called 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. In short, everything cannot be controlled at the same times

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

TECHNIQUES OF MANAGERIAL CONTROL

Techniques of managerial control may be classified into two broad categories:

I. Traditional Techniques

II. Modern Techniques.

I. TRADITIONAL TECHNIQUES:

1. Personal Observation: It enables the manager to collect first hand information but it is very time consuming and cannot be used in all kinds of job.

2. Statistical Reports: Statistical analysis in the form of averages, percentages, ratios, correlation, etc., present useful information to the managers regarding performance of the organisation.

3. Breakeven analysis: is a technique to study the relationship between costs, volume and profits.

4. Budgetary Control: is a technique of managerial control in which all activities are planned in advance in the form of budgets and actual results are compared with budgetary standards.

Types of budget

1. Sales budget
2. Production budget
3. Material budget
4. Cash budget
5. Capital budget
6. Research and development budget

Advantages of Budgeting

1. Helps in attainment of organisational objectives.
2. Is a source of motivation to the employees
3. Helps in optimum utilisation of resources
4. Is also used for achieving coordination among different departments

II. MODERN TECHNIQUES

1. Return on Investment:

Return on Investment (ROI) is a technique which provides the basic yardstick for measuring whether or not invested capital has been used effectively for generating reasonable amount of return.

$$\text{ROI}=\frac{\text{Net income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total Investments}}$$

2. Ratio Analysis:

Ratio Analysis refers to analysis of financial statements by computation of various ratios.

1. Liquidity Ratios
2. Solvency Ratios
3. Profitability Ratios
4. Turnover Ratios

III. RESPOSIBILITY ACCOUNTING

1. Cost centre: A cost or expense centre is a segment of an organisation for which a manager is held responsible for its operations. For e.g. production department for manufacturing unit.

2. Revenue Centre: is a segment of an organisation which is primarily responsible for generating revenue. For e.g. Marketing department

3. Profit Centre: is a segment of an organisation whose manager is responsible for both revenues and costs. For e.g. repair and maintenance department.

4. Investment Centre: is responsible not only for profits but also for all investments made in the centre. e.g. assets.

IV. MANAGEMENT AUDIT

Management audit refers to systematic performance appraisal of the management of an organisation.

V. PERT and CPM

- PERT (Programme Evaluation and Review Technique) and CPM (Critical Path Method) are important management techniques used to plan, schedule and control complex project.
- These techniques are especially useful for planning, scheduling and implementing time bound projects involving performance of a variety of complex, diverse and interrelated activities.

VI. MANAGEMENT INFORMATION SYSTEM

Management Information System (MIS) is a computer-based information system that provides information and support for effective managerial decision-making. Its is an important control technique.

MIS offers the following **advantage**s to the managers:

1. It facilitates collection, management and dissemination of information
2. It supports planning and controlling at all levels
3. It improves the quality of information
4. It ensures cost effectiveness
5. It reduces information overload