CONTROLLING

UNIT-V - Syllabus

- Controlling – Definition – Principles – Controlling process – Types of Controls – Control Techniques - Coordination.

KEY WORDS:

Standards, Coordination, Feedback Control, Concurrent control, Predictive control

CONTROLLING - **Meaning & Definition**

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.

Controlling can be defined as that function of management which helps to seek planned results from the subordinates, managers and at all levels of an organization

Importance of Controlling

Control is essential to your business because it helps to check errors and implement corrective action, minimizing deviation from standards.

1. **Controlling helps in achieving organizational goals**
2. **For Evaluating/Judging accuracy of standards**
3. **Making efficient use of resources**
4. **Improves employees motivation**
5. **Facilitating Coordination in action**
6. **Ensuring order and discipline**

Nature of Controlling/Features of Controlling

Every manager needs to monitor and evaluate the activities of his subordinates. It helps in taking corrective actions by the manager in the given timeline to avoid contingency or company’s loss.

1. Goal oriented
2. Pervasive
3. Continuous
4. Controlling is looking back
5. Controlling is forward looking
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-

1. Planning is pre-requisite for controlling. Plans provide the standard for controlling. Thus, without planning, controlling is blind. If the standards are not set in advance managers have nothing to control.

2. Planning is meaningless without controlling. It is fruitful when control is exercised. It discovers deviations and initiates corrective measures.

3. Effectiveness of planning can be measured with the help of controlling.

Controlling Process

1. **Setting Performance Standards:** Standards are the criteria against which actual performance would be measured.
2. **Measurement of Actual Performance:** Performance should be measured in an objective and reliable manner which includes personal observation, sample checking.
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.
4. **Analysing Deviations:** The deviations from the standards are assessed and analysed to identify the causes of deviations.
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. .

Limitations of Controlling

1. **Difficulty in setting quantitative standards**: e.g areas like human behaviour, employee morale, job satisfaction cannot be measured quantitatively.
2. **Little control on external factors:** An enterprise cannot control external factors like government policies, technological changes, competition. etc.
3. **Resistance from employees:** Control is resisted by the employees as they feel that their freedom is restricted. E.g employees may resist and go against the use of cameras to observe them minutely.
4. **Costly:** Control involves a lot of expenditure, time and effort. A small enterprise cannot afford to install an expensive control system.

Types of Control

There are three types of control viz.,

- **Feedback Control**: This process involves collecting information about a finished task, assessing that information and improvising the same type of tasks in the future.
- **Concurrent control**: It is also called real-time control. It checks any problem and examines it to take action before any loss is incurred. Example: control chart.
- **Predictive/ feedforward control**: This type of control helps to foresee problem ahead of occurrence. Therefore action can be taken before such a circumstance arises.
- ***Financial and non-financial controls:*** Financial controls involve the management of a firm's costs and expenses so that they can be controlled in relation to budgetary amounts.
- ***Behavioral control:*** Behavioral control involves direct evaluation of managerial and employee decision making not the results of Managerial decisions In an ever-changing and complex environment, controlling forms an integral part of the organization.

Techniques of Managerial Control

Traditional Techniques

1. Personal Observation
2. Statistical Reports
3. Breakeven Analysis
4. Budgetary Control

Modern Techniques

1. Return on investment
2. Ratio Analysis
3. Responsibility Accounting
4. Management Audit
5. PERT & CPM
6. Management Information System (MIS)

Techniques of Managerial Control

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.

MODERN TECHNIQUES **of Managerial Control**

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.
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
3. **Management audit** Management audit refers to systematic performance appraisal of the management of an organisation.
4. **PERT and CPM**

   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.

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 advantages 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**

COORDINATION

Meaning:

Coordination is a continuous process by which a manager integrates the inter-related activities of different departments in order to achieve the common organisational goals.

- Coordination is the essence of Management and an integral part of all the managerial functions. It is also instrumental in binding all the managerial functions.
- In the words of Mcfarland, "Co-ordination is the process whereby an executive develops an orderly pattern of group efforts among his subordinates and secures unity of actions in the pursuit of a common purpose."

Importance of coordination

1. **Unity of action**: – an enterprise has diverse resources; technique, activities etc, and they all must be coordinates to bring unity through unity in action
2. I**ncrease in efficiency and economy**: – coordination brings efficiency because it is an effort of all organizational members.
3. **Development of personnel**: – coordination helps to obtain information about job, qualities of a job holder which helps to analyze about the potentialities of the job holder and improve coordination system
4. **Differential perception**: – When all people are coordinated effectively their effort and power are concentrated to achieve organizational goals
5. **Survival of the organization**: – coordination helps o harmonize the work resources and physical facilities
6. **Accomplishment of objectives**: – it helps to accomplish the objectives of the organization
7. **Basis of managerial function**: – planning, organizing, directing, controlling etc can't be conducted effectively without communication.
8. **Specialization**: – in the absence of coordination in the organization the activities can't be moved in specialized areas.

Features/Nature of Coordination

Coordination is the synchronous performance of activities towards achievement of common interests by a group of people.

1. Integration of group efforts
2. Unity of action
3. Continuous process
4. All pervasive function
5. Deliberate function
6. Responsibility of all managers

Characteristics of Coordination.

(i) Integration of group efforts All business activities are interdependent. Therefore, there should be coordination among them. Coordination enables the business to make efficient use of its available resources.
(ii) Unity of action Coordination enables the manager to secure unity of action in the direction of a common purpose.

(iii) Continuous process It is a continuous process and not a one-time task. A manager has to continuously coordinate the activities of different departments in order to meet the targets by using the available resources efficiently.

(iv) All pervasive function It is an all pervasive function, which runs through all managerial functions from planning till controlling. It is not only needed among different departments but also within the departments at all levels.

(v) Deliberate function A manager has to coordinate the efforts of different individuals working in an organisation in a conscious and deliberate manner.

Internal Coordination
And
External Coordination

I . Internal Coordination

- Internal coordination is all about establishing a relationship between all the Managers, executives, departments, divisions, branches, and employees or workers.
- **Vertical coordination** – In vertical coordination, a superior authority coordinates his work with that of his subordinates and vice versa
- **Horizontal coordination** – In horizontal coordination, employees of the same status establish a relationship between them for better performance.

II. External Coordination

- As the name suggests, external coordination is all about establishing a relationship between the employees of the Organisation and people outside it.
- These relationships are established with a view to having a better understanding of outsiders like Market agencies, public, competitors, customers, Government agencies, financial institutions, etc.

Techniques of Coordination

Techniques may be divided as:

- General techniques and Specific techniques.

1. **Well-defined goals**
2. **Sound organization structure**
3. **Sound Planning**
4. **Sound and Simple Organisation**
5. **Chain of Command**
6. **Effective Communication**
7. **Special Coordinators**
8. **Sound Leadership**
9. **Group decision**
10. **Cooperation**

Challenges in Coordination

1. Poorly defined and understood objectives.
2. Information overload
3. Loss of time
4. Positional problem
5. Lack of understanding
6. Procedure problem
7. Over-specialization.
8. Lack of motivation