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Class 12 commerce Sub. BST. Date 23.06.2021

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Controlling

Question 1:

Explain the various steps involved in the process of control.

ANSWER:

Controlling is a systematic approach of managing and controlling the organisational actions. The following are the steps involved in the controlling process.

(i) *Setting Standards*

Setting up of standards involves developing the benchmarks against which the actual performance is to be measured. The standards can be set in qualitative as well as quantitative terms. Qualitative benchmarks can be in the form of improving coordination in work, higher goodwill or increased motivation level of employees, etc. For example, to improve the motivation level among employees, standard can be set in terms of number of initiatives taken. Quantitative benchmarks can be in the form of sales targets, units to be produced or time to be spent on a particular action, etc. For example, in a shirt factory completing 10 pieces a day is a quantitative target. The standards that are set should be such that they facilitate easy comparison.

(ii) *Measuring Actual Performance*

Once the standards are set, the next step is to measure the actual performance of the activities. This may be done through various techniques such as personal observation, checking the sample, performance reports, etc. The checking should be done in an exact and reliable manner so that correct measurement is taken for comparison. Measurement can be done after the completion of an activity as well as while it is in progress. For example, while assembling small parts of a bigger machine, the parts can be checked before assembling. This would ensure the continuous monitoring of the small parts as well as the final machine.

(iii) *Comparing the Performances*

Performances once measured are then compared with the set standards. Such a comparison helps in assessing the deviations in the work. Thereby, it guides the managers in taking the necessary steps so as to improve the performances. These comparisons are easier when they are in quantitative terms. For example, efficiency in work in terms of cost incurred can be measured against the standard cost.

(iv) *Analysing Deviation*

Every organisation faces deviations when comparing the actual performance with the pre-developed standards. Thus, it is important to find the deviations that are in the permissible range. It is said that deviations in key areas should be attended first. For analysing the deviations the managers generally use 'Critical Point Control' and 'Management by Exception'.

- *Critical Point Control*: An organisation cannot keep a check on all the activities of the management. Thus, this technique of controlling aims at focussing on only the key result areas (KRAs) that affect the entire organisation. For example, rise in input cost would be more important than rise in stationary cost.

- *Management by Exception*: This technique of management is based on the belief that 'an attempt to control everything results in controlling nothing'. According to this, only the essential and significant deviations that are beyond the acceptable limit should be controlled. For example, if there is a 6 per cent rise in labour cost whereas the permissible limit is just 3 per cent, then, this should be immediately brought into the notice of the management. On the other hand a 2 percent rise in the cost can be ignored.

Once the deviations are recognised, it is necessary to acknowledge the cause for it. There can be a number of elements causing deviations in work such as infeasible standards, deficiencies in process, under utilisation of resources, changes in business environment, etc. Thus, it becomes important for the management to take into regard the causes for the concerned deviations.

(v) *Corrective Measures*

When deviations go beyond the admissible limits, there arises a need for the management to take corrective actions. This is the last step of controlling which aims at correcting the deficiencies of the organisation so that the errors do not occur again. For example, if the production target was not met duly, appropriate corrective actions such as training the workers or updating the machinery for working, etc. can be taken.

Question 2:

Explain the techniques of managerial control.

ANSWER:

The techniques used for managerial control can be divided into two broad categories namely, Traditional Techniques and Modern Techniques.

Traditional Techniques

Techniques which are being used by the managers since long back, are known as traditional techniques. The following are traditional techniques of managerial control.

i. Personal Observation: This technique includes personal observation by the managers to oversee the work being done. It enables the manager to gather the right information and also creates a pressure on the workers to perform well as they are being continuously observed by their supervisor. However, it is a time consuming process and cannot be used where there are a variety of functions to be overseen.

ii. Statistical Reports: Information in the form various statistical analysis such as averages, ratios, percentages, etc. can be easily presented in the form of graphs, charts and tables. Such presentation facilitates easy comparison of the performance with the standards.

iii. Break-Even Analysis: It involves a study of relation between costs, volume and profits. Break-Even point refers to that quantity of sales where there is neither profit nor loss. It is determined at the point where total cost incurred is equals the total revenue earned. Through this technique, the manager can estimate the costs and profits to the organisation at various levels of quantity and thereby, find the level where profit can be maximised.

iv. Budgetary Control: Budgetary control is a technique of planning the future operations in the form of budgets. Here, 'budget' refers to a quantitative or qualitative statement which presents the objectives to be achieved in a specified period of time. These budgets are then used as standards for measuring the actual performance. It also presents the time-bounded policies to be used for the attainment of the objectives. It also facilitates management by exception by focussing on the activities which deviate significantly from the set budgets. However, to ensure effectiveness of the technique, estimates about the future should be as accurate as possible. In addition, the budgets should be flexible so as to adapt to the changes in business environment.

Modern Techniques

Modern techniques as the name suggests are modern and recent in origin. They are based on the new thinking of the managers and provide refreshing ideas for a better managerial control. Following are the highlighted modern techniques of controlling.

i. Return on Investment: Return on investment refers to the gains or benefits earned in relation to the investments done. It is a useful technique in measuring whether the invested capital is being used effectively and if a reasonable amount of returns are being generated from these investments. Managers can opt for this technique when comparing the performances of different departments or divisions or when comparing the present actions in relation to the previous year performance.

ii. Ratio Analysis: This technique involves calculating various ratios in order to analyse the financial statements. These ratios are then used as a tool for effective managerial control. Following are the most commonly used ratios for controlling.

(a) *Liquidity Ratio*, for determining the short-term solvency of business.

(b) *Solvency Ratio*, for determining the long-term solvency of a business.

(c) *Profitability Ratios*, for determining the profitability positions of a business.

(d) *Turnover Ratios*, for determining the efficiency of activities based on the utilisation of resources.

iii. Responsibility Accounting: Under this system, different divisions of an organisation are established as responsibility centres. The head of each centre is responsible for the targets and duties regarding his centre. The following are some of the responsibility centres that can be formed.

(a) *Cost Centre*, is responsible for the costs incurred by the organisation.

(b) *Revenue Centre*, responsible for the revenue generated from the sales or marketing activities.

(c) *Profit Centre*, responsible for the profits generated considering the costs and revenues.

(d) *Investment Centre*, it takes into account the investment made in the form of assets.

iv. Management Audit: It refers to a systematic approach for analysing and appraising the overall efficiency of the management of a company. It aims at reviewing the efficiency and effectiveness of the management in order to identify the deficiencies in the overall performance. It acts as an important control system by continuously monitoring the working activities of the managers.

v. PERT and CPM: Programme Evaluation and Review Technique (PERT) and Critical Path Method (CPM) are techniques that are based on network analysis. It involves dividing the entire project into various activities and then deciding a time line and cost estimate for each activity and for the entire project. As these techniques deal with time scheduling and resource allocation, they enable effective execution of the projects. Such techniques are generally used in ship-building, construction projects, etc.

vi. Management Information System: MIS is a computer based controlling technique that provides timely data and information to the managers while aiming at effective decision making. It processes the massive data of the organisation and generates useful information to the managers. MIS also ensures cost effectiveness in managing information as it facilitates collection and dissemination of information at different levels.

The aforementioned traditional and modern techniques can be used by the managers for effective and efficient controlling of the organisation.

Question 3:

Explain the importance of controlling in an organisation. What are the problems faced by the organisation in implementing an effective control system?

ANSWER:

Controlling is an important and an indispensable function of management. It aims at managing the managerial actions by setting the standards and identifying the deviations of actual performance as against the set standards. It also ensures optimum utilisation of resources while taking corrective measures for the deviations. The following are the factors that highlight the importance of controlling.

(i) **Achieving Organisational Goals:** Controlling aims at accomplishment of the organisational goals by indicating the deficiencies and the corrective actions which are to be taken. It helps in moving in the right direction for attaining the set organisational objectives.

(ii) **Evaluating the Standards:** Controlling helps in judging the accuracy of the standards adopted by the management. A good controlling system enables the manager to check whether the set standards are accurate and feasible. It also helps the organisation to review and revise the standards according to the changing business environment.

(iii) **Optimum Utilisation of Resources:** A continuous control and monitoring helps in the efficient and optimum utilisation of resources. As each work is done according to the set standard, there is less wastage and spoilage of resources.

(iv) **Employee Motivation:** By exercising effective control, employees get to know well in advance about what is expected from them and the standards against which their performance will be assessed. This motivates them to achieve the assigned targets in a better way.

(v) **Order and Discipline:** Efficient controlling helps in creating an atmosphere of order and discipline in the organisation. As the employees are aware of the fact that they are being continuously observed, dishonesty and inefficiency in behaviour is minimised.

(vi) **Promoting Coordination:** Pre-determined standards provide a basis for better coordination within various activities. As the departments are made aware of their duties and tasks, controlling promotes coordination among them. Controlling provides unity of direction while ensuring that the organisational objectives are met.

Hence, Controlling is an important function that is performed by all the managers. However, controlling has some limitations. The following points highlight the problems faced by the organisation when implementing an effective controlling system.

(i) **Complication While Setting Standards:** It is important to set the standards in quantitative terms as well as qualitative terms for better controlling. However, controlling becomes less effective when the standards are defined in qualitative terms. Qualitative standards make the evaluation of the performance and the comparison of actual work with the standards, a complicated task. Thus, it might pose a problem in the process of controlling.

(ii) **External Factors:** Business environment keeps on changing and the organisation have very little control over such external factors. These factors might create hurdles in effective controlling. Such factors can be in the form of change in government policies, environmental changes, competition, etc.

(iii) **Resistance from Employees:** Controlling can be resisted by the employees if it goes against their comfort zone and freedom. For instance, if the managers set a defined quantity for production as a standard and if the workers take it as unrealistic, then they can go on strike.

(iv) **Expensive Process:** Effective controlling is a costly affair in terms of time, money and effort. For example, setting up of CCTVs involves a lot of costs. Thus, it may not be possible for a small organisation to set up such system. Thereby, the managers should ensure that the costs incurred in operating such controlling systems do not exceed the benefits derived from it.

Question 4:

Discuss the relationship between planning and controlling.

ANSWER:

Planning and controlling are closely interrelated functions of management. On one hand, planning refers to the psychological process of thinking and deciding about what is to be done and how it is to be done. That is, planning decides the objectives to be achieved and the course of action to be followed. On the other hand, controlling refers to the process of managing and evaluating the work done in accordance with the standards and taking corrective measures, if there are any deficiencies. These standards that form the basis of controlling are provided by planning. The various objectives and policies as formulated under planning serve as standards against which the actual performance is evaluated. Controlling without planning is meaningless. If there are no standards and no objectives, there is nothing to control. That is, if the managers do not know what the final objective is, they do not have any standard against which they can judge the current performance and deficiencies. Similarly, planning without controlling holds no meaning. Once the plans are formulated, it becomes necessary to monitor and evaluate whether the performance is as per the desired plans. Controlling is a requisite for measuring whether the plan is being properly implemented, if there are any deficiencies in the work and if there is a need for taking corrective actions in order to achieve the planned goals. If there is no controlling, planning cannot be accomplished. Thereby, planning without controlling is of no use. Thus, it can be said that both planning and controlling complement each other.

Both the concepts of planning and controlling are interlinked in a way as they are forward looking as well as backward looking. Though it is often said that planning is looking forward and controlling is looking backward, however, the statement is only partially true. Though planning is a futuristic concept dealing with preparing plans and setting standards in advance, it is also based on past experiences and actions initiated in the controlling function. Thus, planning besides being forward looking, is backward looking as well. Similarly, although controlling is based on

the past actions and deals with comparing the current actions with the pre-defined standards, it also focuses on taking the corrective actions to improve the future performance of the management. Thus, controlling besides looking back, also looks forward.

Hence, while on one hand, planning is a prerequisite for controlling, on the other hand, controlling is incomplete without planning. Both are inseparable functions that support each other towards the achievement of the goals of the organisation.
