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CONTROLLING

Techniques of Managerial Control

The various techniques of managerial control may be classified into two broad categories: traditional techniques, and modern techniques. Traditional Techniques Traditional techniques are those which have been used by the companies for a long time now. However, these techniques have not become obsolete and are still being used by companies. These include:

(a) Personal observation

(b) Statistical reports

(c) Breakeven analysis

(d) Budgetary control

Modern Techniques

Modern techniques of controlling are those which are of recent origin and are comparatively new in management literature. These techniques provide a refreshingly new thinking on the ways in which various aspects of an organisation can be controlled. These include:

(a) Return on investment

(b) Ratio analysis

(c) Responsibility accounting

(d) Management audit

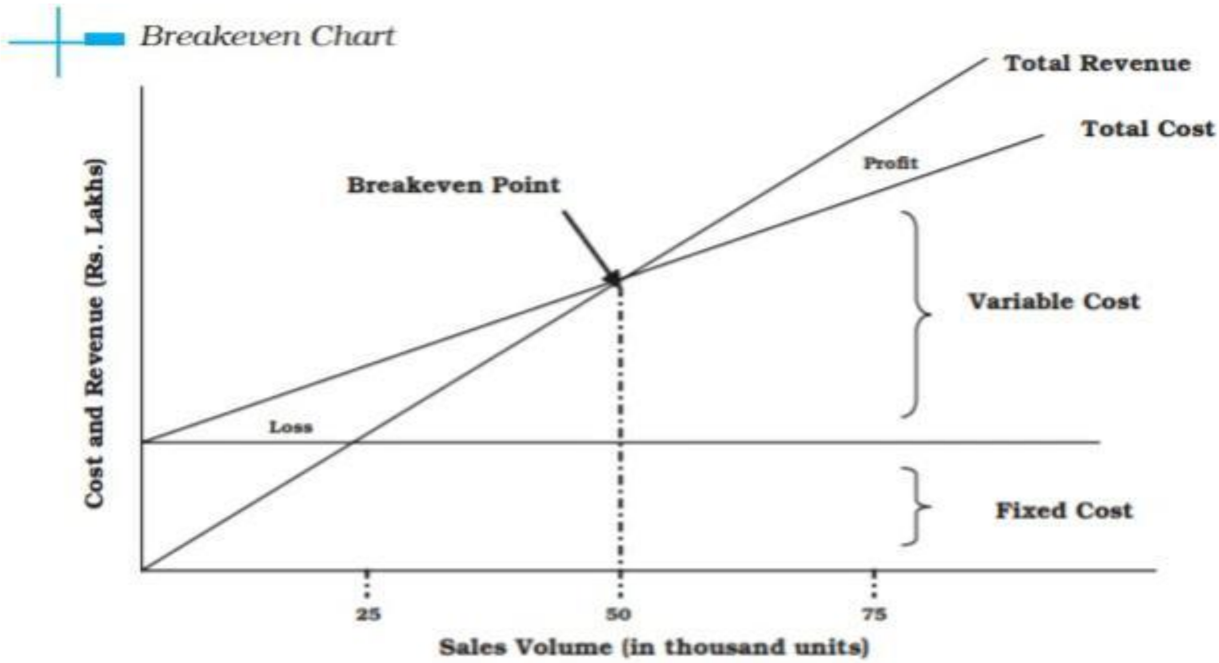
(e) PERT and CPM

(f) Management information system

Traditional Techniques

Personal Observation

This is the most traditional method of control. Personal observation enables the manager to



collect first hand information. It also creates a psychological pressure on the employees to perform well as they are aware that they are being observed personally on their job. However, it is a very time-consuming exercise and cannot effectively be used in all kinds of jobs.

Statistical Reports

Statistical analysis in the form of averages, percentages, ratios, correlation, etc., present useful information to the managers regarding performance of the organisation in various areas. Such information when presented in the form of charts, graphs, tables, etc., enables the managers to read them more easily and allow a comparison to be made with performance in previous periods and also with the benchmarks.

Breakeven Analysis Breakeven analysis is a technique used by managers to study the relationship between costs, volume and profits. It determines the probable profit and losses at different levels of activity. The sales volume at which there is no profit, no loss is known as breakeven point. It is a useful technique for the managers as it helps in estimating profits at different levels of activities. The figure 1 shows breakeven chart of a firm. Breakeven point is determined by the intersection of Total Revenue and Total Cost curves. The figure shows that the firm will break even at 50,000 units of output. At this point, there is no profit no loss. It is beyond this point that the firm will start earning profits. Breakeven point can be calculated with the help of the following formula:

Breakeven Point = Fixed Costs / Selling price per unit – Variable cost per unit

Breakeven analysis helps a firm in keeping a close check over its variable costs and determines the level of activity at which the firm can earn its target profit.

Budgetary Control

Budgetary control is a technique of managerial control in which all operations are planned in advance in the form of budgets and actual results are compared with budgetary standards. This comparison reveals the necessary actions to be taken so that organisational objectives are accomplished. A budget is a quantitative statement for a definite future period of time for the purpose of obtaining a given objective. It is also a statement which reflects the policy of that particular period. It will contain figures of forecasts both in terms of time and quantities. The box shows the most common types of budgets used by an organisation. Budgeting offers the following advantages:

1. Budgeting focuses on specific and time-bound targets and thus, helps in attainment of organisational objectives.

2. Budgeting is a source of motivetion to the employees who know the standards against which their performance will be appraised and thus, enables them to perform better.

3. Budgeting helps in optimum utilisation of resources by allocating them according to the requirements of different departments.

4. Budgeting is also used for achieving coordination among different departments of an organisation and highlights the interdependence between them. For instance, sales budget cannot be prepared without knowing production programmes and schedules.

5. It facilitates management by exception by stressing on those operations which deviate from budgeted standards in a significant way.