Unit V

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Controlling is one of the managerial functions and it is an important element of the **management** process.

Control can be defined as the process of analysing whether actions are being taken as planned and taking corrective actions to make these to confirm to planning.

Control is the process to find out whether actions are being taken as planned and taking corrective actions to make them conform to plans and then to take the necessary steps to prevent the occurrence of variations in future. Some of the important definitions of control are as follows:

E.F.L. Brech "Control is checking current performance against predetermined standards contained in the plans with a view to ensuring adequate progress and satisfactory performance'.

The important features of control can be summed up as follows:

(a) It is an important managerial function.

(b) It is concerned with setting standards.

(c) It involves the measurement of actual performance.

(d) It brings to light the variations, if any, from the standards set.

(e) Its object in checking the variations is to rectify them and prevent their recurrence.

Need for Control

A control system is needed for three purposes:

1. to measure progress;
2. to uncover deviation; and
3. to indicate corrective action.

To Measure Progress

There is a close link between planning and controlling the organisation's operations. We have discussed in Planning chapter how in the planning process, the fundamental goals and objectives of the organisation and the methods for attaining them are established. The control process measures progress towards those goals. As Fayol so clearly recognised decades ago, "In an undertaking, control consists in verifying whether everything occurs in conformity with the plan adopted, the instructions issued and principles established." As the navigator continually takes readings to ascertain where he is relative to a planned course, so does the manager take readings to see whether his enterprise or department is on the charted and predetermined course.

To Uncover Deviations

Once a business organisation is set into motion towards its specific objectives, events occur that tend to pull it "off the target." A successful control process is one that effects corrections to the organisation before the deviations become serious. Major events which tend to pull an organisation "off the target" are as follows:

Change: Change is an integral part of almost any organisation's environment. Markets shift, new products emerge, new materials are discovered and new regulations are passed. The control function enables manager to detect changes that are affecting their organisation's products or service. They can then move to cope with the threats or opportunities that these changes represent.

Complexity: Today's vast and complex organisations, with geographically separated plants and decentralised operations, make control a necessity. Diversified product lines need to be watched closely to ensure that quality and profitability are being maintained; sales organisation's various markets — foreign and domestic — require close monitoring.

Mistakes*:* Managers and their subordinates very often commit mistakes. For example, wrong parts are ordered, wrong pricing decisions are made, problems are diagnosed incorrectly, and so on. A control system enables managers defect these mistakes before they become serious.

Delegation*:* As we discussed in Chapter 6, when managers delegate authority to subordinates, their responsibility to their own superiors is not reduced. The only way managers can determine if their subordinates are accomplishing the tasks that have been delegated to them is by implementing a system of control. Without such a system, managers will not be able to check on subordinates' progress, and so will not be able to take corrective action until after a failure has occurred.

To Indicate Corrective Action

Controls are needed to indicate corrective actions. They may reveal, for example, that plans need to be redrawn or goals need to be modified or there is need for reassignment or clarification of duties or for additional staffing.

Objectives of Control:

1. To ensure that activities are performed in accordance with the predetermined standard that is to see that activity is achieving the desired result.
2. To know what is happening or what has actually happened in the organisation.
3. To determine the corrective action, if any, required for the achievement of goals with a minimum of time, effort and expense.
4. To coordinate the diverse activities and efforts.
5. To improve the efficiency of operations by minimizing unnecessary & wasteful actions.

Control Process

The control process of management ensures that every activity of a business is furthering its goals. This process basically helps managers in evaluating their organization's performance. By using it effectively, they can decide whether to change their plans or continue with them as they are.

The control process consists of the following basic elements and steps:

1. Establishing goals and standards

The task of fixing goals and standards takes place while planning but it plays a big role in controlling also. This is because the main aim of controlling is to direct a business's actions towards its goals. If the members of an organization know their goals clearly, they will invest their entire focus in achieving them.

It is very important for managers to communicate their organization's goals, standards and objectives as clearly as possible. There must never be ambiguities amongst employees in this regard. If everybody works towards common goals, it becomes easier for an organization to flourish.

The goals that managers have to set and work towards may be either tangible/specific or intangible/abstract. Tangible goals are those which are easy to quantify in numerical terms. For example, achievement of sales worth Rs. 100 crores within one year is a tangible goal.

On the other hand, intangible goals are those which are not quantifiable numerically. For example, a company may aim to win some prestigious award for its corporate social responsibility activities.

2. Measuring actual performance against goals and standards

Once managers know what their goals are, they should next measure their actual performance and compare. This step basically helps them in knowing whether their plans are working as intended.

After implementing a plan, managers have to constantly monitor and evaluate them. They must always be ready to take corrective measures if things are not working properly. In order to do this, they should keep comparing their actual performance with their ultimate goals.

Apart from taking corrective action, this step of process control also helps managers in predicting future problems. This way they can take measures immediately and save their business from losses.

In order to compare their actual performance, managers first have to measure it. They can do so by measuring results in monetary terms, seeking customer feedback, appointing financial experts, etc. This can often become difficult if managers want to measure intangible standards like industrial relations, market reputation, etc.

3. Taking corrective action

In case there are discrepancies between actual performances and goals, managers need to take corrective actions immediately. Timely corrective actions can reduce losses as well as prevent them from arising in the future again.

Sometimes, business organizations formulate default corrective actions in the form of policies. This, however, can be difficult to do when it comes to complicated problems.

In such cases, managers need to first quantify the defect and prepare a course of action to remedy it. Sometimes, they may have to take extraordinary measures for unpredictable problems.

4. Following up on corrective action

Just taking corrective measures is not enough; managers must also take them to their logical conclusion. Even this step requires thorough evaluations and comparisons.

There are various techniques of managerial control which can be classified into two broad categories namely-

- Traditional techniques
- Modern techniques

Traditional Techniques of Managerial Control

Traditional techniques are those which have been used by the companies for a long time now. These include:

- Personal observation
- Statistical reports
- Break-even analysis
- Budgetary control

1. Personal Observation

This is the most traditional method of control. Personal observation is one of those techniques which enables the manager to collect the information as first-hand information.

It also creates a phenomenon of psychological pressure on the employees to perform in such a manner so as to achieve well their objectives as they are aware that they are being observed personally on their job. However, it is a very time-consuming exercise & cannot effectively be used for all kinds of jobs.

2. Statistical Reports

Statistical reports can be defined as an overall analysis of reports and data which is used in the form of averages, percentage, ratios, correlation, etc., present useful information to the managers regarding the performance of the organization in various areas.

This type of useful information when presented in the various forms like charts, graphs, tables, etc., enables the managers to read them more easily & allow a comparison to be made with performance in previous periods & also with the benchmarks.

3. Break-even Analysis

Breakeven analysis is a technique used by managers to study the relationship between costs, volume & profits. It determines the overall picture of probable profit & losses at different levels of activity while analyzing the overall position.

The sales volume at which there is no profit, no loss is known as the breakeven point. There is no profit or no loss. Breakeven point can be calculated with the help of the following formula:

Breakeven point = Fixed Costs/Selling price per unit – variable costs per unit

4. Budgetary Control

Budgetary control can be defined as such technique of managerial control in which all operations which are necessary to be performed are executed in such a manner so as to perform and plan in advance in the form of budgets & actual results are compared with budgetary standards.

Therefore, the budget can be defined as a quantitative statement prepared 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. The common types of budgets used by an organization.

Some of the types of budgets prepared by an organisation are as follows,

- Sales budget: A statement of what an organization expects to sell in terms of quantity as well as value
- Production budget: A statement of what an organization plans to produce in the budgeted period
- Material budget: A statement of estimated quantity & cost of materials required for production
- Cash budget: Anticipated cash inflows & outflows for the budgeted period
- Capital budget: Estimated spending on major long-term assets like a new factory or major equipment
- Research & development budget: Estimated spending for the development or refinement of products & processes

Modern Techniques of Managerial Control

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

- Return on investment
- Ratio analysis
- Responsibility accounting
- Management audit
- PERT & CPM

1. Return on Investment

Return on investment (ROI) can be defined as one of the important and useful techniques. It provides the basics and guides for measuring whether or not invested capital has been used effectively for generating a reasonable amount of return. ROI can be used to measure the overall performance of an organization or of its individual departments or divisions. It can be calculated as under-

Net income before or after tax may be used for making comparisons. Total investment includes both working as well as fixed capital invested in the business.

2. Ratio Analysis

The most commonly used ratios used by organizations can be classified into the following categories:

- Liquidity ratios
- Solvency ratios
- Profitability ratios
- Turnover ratios

3. Responsibility Accounting

Responsibility accounting can be defined as a system of accounting in which overall involvement of different sections, divisions & departments of an organization are set up as ‘Responsibility centers’. The head of the center is responsible for achieving the target set for his center. Responsibility centers may be of the following types:

- Cost center
- Revenue center
- Profit center
- Investment center

4. Management Audit

Management audit refers to a systematic appraisal of the overall performance of the management of an organization. The purpose is to review the efficiency &n effectiveness of management & to improve its performance in future periods.

5. PERT & CPM

PERT (programmed evaluation & review technique) & CPM (critical path method) are important network techniques useful in planning & controlling. These techniques, therefore, help in performing various functions of management like planning; scheduling & implementing time-bound projects involving the performance of a variety of complex, diverse & interrelated activities. Therefore , these techniques are so interrelated and deal with such factors as time scheduling & resources allocation for these activities.

Requirements of a good control system

1. Suitable: The control system must be suitable for the kind of activity intended to serve. Apart from differences in the systems of control in different business, they also vary from department to department and from one level in the organization to the other. A system of control useful at a higher level of management will be different in scope and nature from that in use at the operative level. Several techniques are available for control purposes such as budgets, break-even points, financial ratios and so on. The manager must be sure that he is using the technique appropriate for control of the specific activity involved. The tool appropriate are not necessarily the same as between different departments or between two different organizations. For example, the sales department and production department may use different tools of control. Again, a small business will not have as elaborate a control system as a large organization.

2. Understandable: The system must be understandable, i.e., the control information supplied should be capable of being understood by those who use it. A control system that a manager cannot understand is bound to remain ineffective. The control information supplied should be such as will be used by the managers concerned. What may be considered valuable and understandable to one manager may not be so to another. It is, therefore, the duty of the manager concerned to make sure that the control information supplied to him is of a nature that will serve his purpose. As an illustration, it is quite possible that top managers may understand a complicated system of control based on statistical break-even charts and mathematical formula whilst to the lower level manager such information would be of very doubtful utility, being beyond their powers of comprehension.

In this sense, the data supplied as information must be understandable and helpful.
3. Economical: The system must be economical in operation, i.e., the cost of a control system should not exceed the possible savings from its use. The extent of control necessary should be decided by the standard of accuracy or quality required. A very high degree or standard of accuracy or quality may not really be-necessary. Undue complexity of the control system should be avoided to keep a check on the costs of control. It, therefore, becomes necessary to concentrate the control system on factors, which are strategic to keep the costs down and the system economical.
4. Flexible: The system of control must be flexible, i.e. workable even if the plans have to be changed. In case the control systems can work only on the basis of one specific plan, it becomes useless if the plan breaks down and another has to be substituted. However thoroughly the plans may have been formed or the planning premises established, unforeseen circumstances can upset the best-laid plans. A good control system would be sufficiently flexible to permit the changes so necessitated. It was possible that some particulars within the managerial plan might fail. The control system should report such failures and should contain sufficient elements of flexibility to maintain managerial control of operations in spite of such failures.

5. Expeditious: Nothing can be done to correct deviations, which have already occurred. It is, therefore, important that the control system should report deviations from plans expeditious. No useful purpose can be served by a deviation detected months after its occurrence. The objective of the control system should be to correct deviations in the immediate future. This requires that the lime-lag between the occurrence of a deviation and its reporting be kept at the minimum possible.
6. Forward Looking: The control system must, therefore, be forward looking, as the manager canno1 control the past. In fact, the control system can at times be so devised as to anticipate possible deviations, or problems. Thus deviations can be forecast so that corrections can be incorporated even before the problem occurs. Cash forecasts and cash control is an example in point where a financial manager can forecast the future cash requirements and provide for them in advance.

7. Organizational Conformity: Since people carry on activities, and events must be controlled through people, it is necessary that the control data and system must conform to the organizational pattern. The control data must be so prepared that it is possible to fix responsibility for the deviations within the areas of accountability. For example, where factory costs are accumulated in a manner other than on me basis of areas of responsibility, they may lose much of their values as an instrument of control. In this case, the actual costs in a department may be out of line with the standards set without the department knowing whether the deviation has been caused by something within its control. In this sense, organization and control are difficult to separate, being dependent on one another for effective management.

8. Indicative of Exceptions at Critical Points: The management principle of exception should be used to show up not only deviations but the critical areas must also be fixed for most effective control.

9. Objectivity: As far as possible, the measurements used must have objectivity. While appraising a subordinate's performance, the subjective element cannot be entirely removed. Here the personality of both the manager as well as his subordinate would be reflected in the final judgment.. The use of indefinite terms can frustrate the subordinate like being told that he is not doing a good job.

10. Suggestive of Corrective Action: Finally, an adequate control system should not only detect failures must also disclose where they are occurring, is responsible for them and what should be done to correct them. Overall summary information can cover up certain fault areas. For instance, it is insufficient to show merely a decline in the profits. The reason for such declined or which also be indicated, such drop in the sales volume or an increase in the costs. Even this is insufficient. The information should also disclose in which market areas the sales decline which specific costs had increased. Where a system merely detects deviations but does not indicate corrective action, the control system becomes an exercise in futility.

What Is Management by Objectives (MBO)?

Management by objectives (MBO) is a strategic management model that aims to improve the performance of an organization by clearly defining objectives that are agreed to by both management and employees. According to the theory, having a say in goal setting and action plans encourages participation and commitment among employees, as well as aligning objectives across the organization.

Management by objectives (MBO) is a strategic management model that aims to improve organizational performance by clearly defining objectives that are agreed to by both management and employees.

• According to the theory, having a say in goal setting and action plans encourages participation and commitment among employees, as well as aligning objectives across the organization.

• The strategy was formulated by Peter Drucker in the 1950s, detailing five steps that organizations should follow.

• Critics of MBO argue that it leads to employees trying to achieve the set goals by any means necessary, often at the cost of the company.

Understanding Management by Objectives (MBO)

Management by objectives (MBO) is the establishment of a management information system to compare actual performance and achievements to the defined objectives. Practitioners claim that the major benefits of MBO are that it improves employee motivation and commitment and allows for better communication between management and employees.

However, a cited weakness of MBO is that it unduly emphasizes the setting of goals to attain objectives, rather than working on a systematic plan to do so. Critics of MBO, such as W. Edwards Demming, argue that setting particular goals like production targets leads workers to meet those targets by any means necessary, including short-cuts that result in poor quality.

Drucker believed MBO was not a cure-all but a tool to be utilized. It gives organizations a process, with many practitioners claiming that the success of MBO is dependent on the support from top management, clearly outlined objectives, and trained managers who can implement it.

Management by objectives outlines five steps that organizations should use to put the management technique into practice.

1. The first step is to either determine or revise organizational objectives for the entire company. This broad overview should be derived from the firm's mission and vision.

2. The second step is to translate the organizational objectives to employees. Drucker used the acronym SMART (specific, measurable, acceptable, realistic, time-bound) to express the concept.

3. Step three is stimulating the participation of employees in setting individual objectives. After the organization's objectives are shared with employees, from the top to the bottom, employees

should be encouraged to help set their own objectives to achieve these larger organizational objectives. This gives employees greater motivation since they have greater empowerment.

4. Step four involves monitoring the progress of employees. In step two, a key component of the objectives was that they are measurable in order for employees and managers to determine how well they are met.

5. The fifth step is to evaluate and reward employee progress. This step includes honest feedback on what was achieved and not achieved for each employee.

Advantages and Disadvantages of Management by Objectives (MBO)

MBO comes with many advantages and disadvantages to a company's success. The benefits include employees taking pride in their work with goals that they know they can achieve. It also aligns employees with their strengths, skills, and educational experiences. MBO also leads to increased communication between management and employees. Assigning tailored goals brings a sense of importance to employees, bringing loyalty to the firm. And lastly, management can create goals that lead to the success of the company.

The Contents in this E-Material has been taken from the text and reference book as given in the syllabus.