

FUNDAMENTALS OF MANAGEMENT

UNIT- 5 – CONTROLLING

MEANING-CONTROLLING:

Controlling is the process of measuring the actual performance achieved with that of planned performance and taking corrective action if actual performance is not in accordance with planned performance.

Control i.e. controlling is one of the important functions of management. It is also known as a key to the management of the implementation of a plan.

The basic part of controlling is to achieve predetermined goals in a stated time and standard. Its motive is to facilitate the most effective and efficient attainment of organizational objectives.

DEFINITION –CONTROLLING:

“Control is the process of checking, testing, regulation, verification, or adjustment to ensure that the organization’s mission and objectives are accomplished as effectively and efficiently as possible.

- **Robert Kreitner**

“Control is the process of monitoring activities to ensure that they are being accomplished as planned and correcting any significant deviations.

- **DeCenzo and Robbins**

NATURE OF CONTROLLING/FEATURES OF CONTROLLING:

Goal oriented:

Controlling is directed towards accomplishment of organizational goals in the best possible manner.

Pervasive:

Controlling is an essential function of every manager and exercised at all levels of management.

Continuous:

It is not an activity to be pursued in the end only; it has to be done on a continuous basis.

Controlling is looking back:

Controlling involves measurement of actual performance and its comparison with the desired performance. It is the process of checking and verification.

Controlling is forward looking:

It is related to future because it seeks to improve future results on the basis of experience gained in the past.

Depends on planning:

It pre supposes existence of planning because without planning no control is possible.

Action oriented:

Control has no meaning if no corrective action is taken; So timely action should be taken to prevent deviations.

Primary Function of Management:

Controlling is performed at all levels and in all types of organizations.

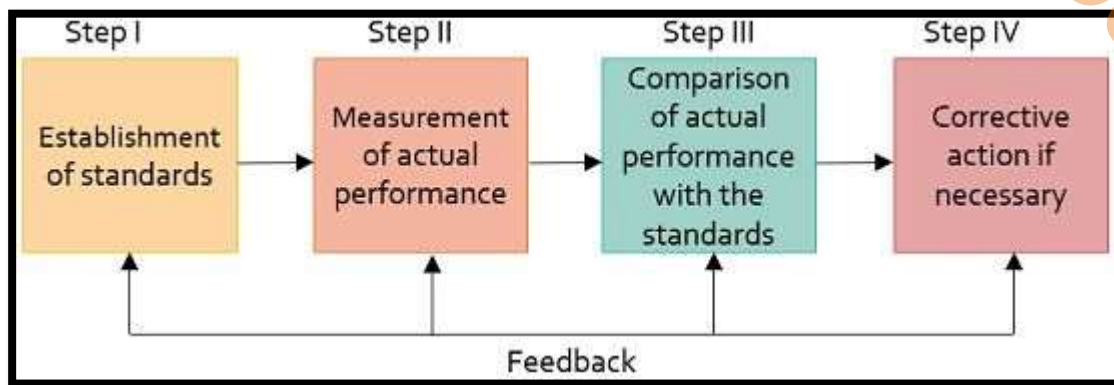
Brings back management cycle back to planning:

Control should not be viewed as the last function. In fact it links back to planning. Controlling involves

Comparing actual performance with standards:

Finding out deviations and taking corrective action so that they don't repeat in future these are the guidelines when future planning is done. Thus controlling not only completes one cycle of management process and also helps to improve planning in the next cycle.

STEPS/ ELEMENTS IN THE PROCESS OF CONTROLLING:



1. Setting Performance Standards:

This means setting up of the target which needs to be achieved to meet organizational goals eventually. Standards indicate the criteria of performance.

Control standards are categorized as quantitative and qualitative standards. Quantitative standards are expressed in terms of money. Qualitative standards, on the other hand, includes intangible items.

2. Measurement of Actual Performance:

Performance should be measured in an objective and reliable manner which includes personal observation, sample checking. Performance should be measured in 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. Such 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. Analyzing Deviations:

The deviations from the standards are assessed and analyzed to identify the causes of deviations.

5. Taking Corrective Action:

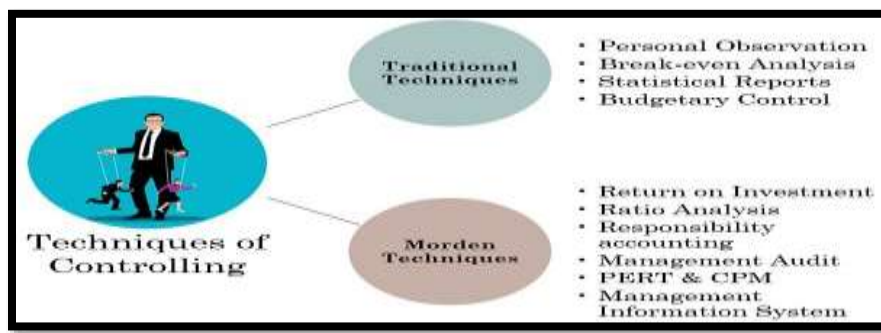
The final step in the controlling process is taking corrective action. No corrective action is required when the deviation are within the acceptable limits. But where significant deviations occur corrective action is taken.

Thus, these are the process involved in controlling.

TECHNIQUES OF CONTROLLING:

There are various techniques available for controlling in the field of management. We can group them under two broad categories as follows:

- ✚ Traditional Techniques
- ✚ Modern Techniques



Traditional Techniques:

As the name suggests, managers have developed and used these techniques for a long period of time. These techniques are still fruitful and used by the firms till date. Following are the most commonly used traditional techniques for controlling:

- **Personal Observation**
- **Break-even Analysis**
- **Statistical Reports**
- **Budgetary Control**

Personal Observation

It is the oldest traditional method available to perform the controlling function. Here, the manager personally observes the employees/workers at the workplace. In simple words, we can understand it as On-the-Spot or Direct Observation.

The benefit of using it is to get first-hand and authentic information for the analysis. Also, the managers can correct the operations on the spot in case of non-performance.

Break-even Analysis:

This control technique depicts the relationship between Cost and Volume at different output levels. It is also known as the Cost, Volume and Profit analysis.

It predicts the profits and losses in response to the changes in output levels. The point where the cost price equals the selling price is the Break-even point.

Break-even Point Formula:

$$\text{Break Even Point} = \frac{\text{Fixed Cost}}{\text{Price} - \text{Variable Cost}}$$

In the Break-Even Analysis technique, the evaluation is based on the elements given below:

1. **Break-even Point**
2. **Angle of Incidence**
3. **Contribution Margin**
4. **Margin of Safety**

Statistical Reports:

The manager gathers information to evaluate performance in functional areas. Moreover, they use the collected information for comparison purposes. It involves the analysis of the numeric data in the form of:

- Averages
- Percentages
- Co-relation
- Ratios, etc

The organization presents the above information via Charts, Graphs, Tables, etc. These reports help visualize the data and identify the areas that demand attention. Hence, it is the most used and helpful technique for data analysis.

Budgetary Control

Budgetary Control is an important traditional control technique used in planning and controlling functions. It covers the planning of the essential operations followed by its comparisons with the actual performance.

The budgeting process includes comparing and evaluating the actual and budgeted performances. The steps in budgeting broadly cover the following:

- Creating standards by bifurcating the overall business goals into departmental targets.
- Comparison of predefined Budget/Standards with the actual performance.
- Calculate the logical deviations from the plan and take corrective measures.

Budgetary control facilitates control over day-to-day activities. Also, it assesses the need for resources and manpower to achieve business objectives. It might be possible that the formulated budget can be inaccurate and expensive. Following are the common types of budgets prepared by organizations:

- Cash Budget
- Sale Budget
- Production Budget
- Capital Budget
- Material Budget

MODERN TECHNIQUES:

Modern control techniques are additions to the management literature. These are of recent origin and provide innovative methods for organizational evaluation and control.

- Return on Investment
- Financial Statement and Ratio Analysis
- Responsibility Accounting
- Management Audit
- PERT & CPM
- Management Information System

Return on Investment

Return on Investment (ROI) is the profit earned by invested capital. It is analyzed to attain financial control in the business. It is also known as the Du-Pont System of financial analysis.

To measure the generated return, we calculate the rate of ROI. This rate helps assess the financial position of the business.

ROI Formula:

$$\text{Return on Investment} = \frac{\text{Net Income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total Investment}}$$

As per the technique, we can increase ROI in two ways:

- By raising sales volume relatively greater than the total investment.
- Reducing total investment without reducing sale volume.

Financial Statement and Ratio Analysis:

It helps in controlling the finances of the organization by calculating different Ratios. For this purpose, data is accumulated from the firms' financial statements. The most extensively used Ratios are as follows:

- Profitability Ratios
- Liquidity Ratios
- Solvency Ratios
- Turnover Ratios

Responsibility Accounting:

It is an accounting system that depends upon the responsibility assigned to the employee. So businesses conduct an evaluation of the employee's ability to fulfill the assigned

responsibility as per set standards. This control technique is suitable for large organizations containing many departments. Generally, responsibility centers are of four types:

- Revenue Centre
- Cost Centre
- Profit Centre
- Investment Centre

Management Audit:

Management or Internal Audit is the examination of the utilization of the company's resources. The Top-level initiates it to ensure the efficient performance of the management. Internal Auditing starts as soon as the financial audit ends. During the audit, the overall management process is critically evaluated. However, conducting a management audit is not compulsory for organizations.

PERT & CPM:

PERT is Program Evaluation and Review Technique, whereas CPM stands for Critical Path Method. These control techniques are used explicitly for project management and evaluation. The activity or project's success is largely affected by the time taken and steps involved. Therefore, managers strive to cut the total time and cost involved in completing the activity. It focuses on the efficient execution of the project. But the execution must be within the stipulated time and predetermined costs.

Management Information System:

Management Information system (MIS) basically provides information for effective decision-making. Managers can retrieve any data as and when needed. It is one of the cost-effective controlling techniques available for managers.

Moreover, it provides information at the right time and helps manage a huge bundle of data. The information obtained from MIS is accurate and facilitates decision-making.

MIS has two major components:

- Data Collection
- Data Management

Selection of the Controlling Techniques:

Managers must consider the following factors while selecting a suitable technique of controlling:

- Area of operation
- Management policy at a higher level of management
- Purpose or focus area of control
- Availability and suitability of techniques
- Costs involved
- Industrial trends
- Staff required in the process
- Time invested in the complete process
- Reliability of the results obtained

Thus, these are the techniques of controlling.

EXPLAIN THE TYPES OF CONTROL:

Controlling can be classified into several types based on timing, scope, and focus. These types of control help managers ensure that operations and activities meet organizational standards and objectives. Here are the **main types of control or controlling**:

1. Based on Timing of Control:

These controls are categorized by when they are applied in relation to an event or process.

a. Feed forward Control (Pre-Control or Preventive Control):

- **Timing:** Before an activity begins.
- **Objective:** To prevent problems before they occur by anticipating potential issues and taking preventive measures.
- **Example:** Quality checks on raw materials, planning, and risk analysis before the launch of a new product.

b. Concurrent Control (Real-Time Control):

- **Timing:** During the process or activity.

- **Objective:** To monitor ongoing operations and processes in real time and make immediate adjustments to correct deviations.
- **Example:** Monitoring production lines, supervising employee performance, or using dashboards for real-time data tracking.

c. Feedback Control (Post-Control):

- **Timing:** After the activity is completed.
- **Objective:** To assess performance after an event or activity and use the information for future improvements or corrections.
- **Example:** Financial reports, customer satisfaction surveys, and product reviews to assess outcomes.

2. Based on Focus or Scope:

These controls target different organizational areas or functions.

a. Strategic Control:

- **Focus:** Long-term strategies and overall organizational goals.
- **Objective:** To monitor the implementation of the organization's strategic plans and ensure that they align with the mission and vision.
- **Example:** Regular evaluation of a company's market positioning, diversification strategy, or growth initiatives.

b. Tactical Control:

- **Focus:** Medium-term plans that support strategic goals, often at the departmental or divisional level.
- **Objective:** To ensure that specific departments or units meet their objectives and support broader organizational goals.
- **Example:** Monitoring departmental performance, such as marketing or sales objectives, or production targets.

c. Operational Control:

- **Focus:** Day-to-day activities and processes within an organization.
- **Objective:** To ensure that specific tasks and operations are conducted efficiently and effectively to meet short-term objectives.
- **Example:** Quality control in manufacturing, daily staffing levels in retail, or workflow management in service industries.

3. Based on Methods:

These controls are categorized by the method or tool used to exercise control.

a. Budgetary Control:

- **Method:** Financial planning and budget monitoring.
- **Objective:** To control an organization's financial resources by comparing actual expenses and revenues against the budget.
- **Example:** Monitoring departmental spending to ensure it stays within budget limits, or assessing revenue targets.

b. Quality Control:

- **Method:** Monitoring and improving the quality of products or services.
- **Objective:** To ensure that products or services meet predefined quality standards.
- **Example:** Regular inspections of product lines, using Six Sigma methods, or customer feedback to improve service quality.

c. Inventory Control:

- **Method:** Managing and regulating stock levels.
- **Objective:** To ensure that the right amount of inventory is available to meet demand without overstocking or understocking.
- **Example:** Using just-in-time (JIT) systems to minimize inventory costs while ensuring supply meets demand.

d. Financial Control:

- **Method:** Monitoring financial metrics such as profit margins, return on investment (ROI), and cash flow.
- **Objective:** To ensure financial stability and effective allocation of financial resources.
- **Example:** Monitoring profit margins, capital budgeting decisions, and financial ratio analysis.

e. Human Resource Control:

- **Method:** Supervising and managing employee performance, behavior, and productivity.
- **Objective:** To ensure effective use of human resources and that employee actions align with organizational goals.
- **Example:** Performance appraisals, attendance tracking, and employee development programs.

4. Behavioural and Output Controls:

a. Behavioural Control:

- **Focus:** Monitoring the actions and behaviours of employees.
- **Objective:** To influence the way tasks are completed through direct supervision, rules, and policies.
- **Example:** Setting standard operating procedures (SOPs), guidelines, and real-time supervision.

b. Output Control:

- **Focus:** Monitoring the results or outputs rather than the process.
- **Objective:** To evaluate performance based on outcomes or results rather than focusing on how the task was completed.
- **Example:** Setting performance targets for sales teams and monitoring their output rather than supervising each sale.

5. Formal and Informal Control:

a. Formal Control:

- **Definition:** Structured controls, such as rules, procedures, and policies that are officially established by the organization.
- **Example:** Policies on employee attendance, formal financial audits, and predefined performance standards.

b. Informal Control:

- **Definition:** Unstructured or less rigid forms of control, such as organizational culture, peer influence, or management style.
- **Example:** Encouraging team collaboration and cultural norms that promote productivity.

In summary, organizations use a variety of control types based on timing, scope, and method to ensure that their goals are met efficiently and effectively. Each type plays a critical role in monitoring and adjusting performance across different areas.

BRIEFLY EXPLAIN THE BUDGETARY AND NON-BUDGETARY CONTROL:

Budgetary and non-budgetary controls are two broad categories of control methods used by organizations to monitor and regulate their activities. Each type serves a different purpose, yet both contribute to ensuring that an organization stays on track with its objectives. Here's a detailed explanation:

1. Budgetary Control:

Budgetary control is the process of using budgets (financial plans) as a tool to manage and regulate an organization's activities. A budget represents a plan for allocating resources, and budgetary control involves comparing actual results with the budgeted figures to ensure that spending, revenues, and resource allocation align with expectations.

Key Aspects:

- **Budget Creation:** Involves setting financial and operational goals for a specific period (usually a fiscal year). This includes income targets, expenditure limits, and capital allocation.
- **Monitoring:** Continuous comparison of actual performance with the budget to identify variances (differences).
- **Control Mechanism:** Managers analyse variances and take corrective actions when performance deviates from the budget. This can include adjusting spending, reallocating resources, or revising revenue targets.

Types of Budgets Used:

- **Operating Budgets:** For monitoring day-to-day activities, such as sales revenue, production costs, and administrative expenses.
- **Capital Budgets:** For controlling long-term investments in assets like equipment or infrastructure.
- **Cash Budgets:** To monitor the organization's liquidity and ensure that cash flows meet operational needs.
- **Flexible Budgets:** Adjust to different levels of activity to help organizations remain responsive to changes in volume or demand.

Benefits:

- It helps to allocate the resources efficiently.
- It provides a clear financial framework and accountability.
- Allows early identification of variances, leading to proactive management.
- It also facilitates coordination between departments and units.

Example:

A company sets a budget for marketing expenses at \$100,000. At the end of the quarter, the actual marketing expenses are \$120,000. Through budgetary control, management analyses

this variance to determine the cause and may cut down on other expenses or find ways to bring future marketing expenses back in line with the budget.

2. Non-Budgetary Control:

Non-budgetary control involves methods that are not directly related to financial planning or budgets. These controls focus on qualitative, operational, and behavioural aspects of organizational performance. Non-budgetary controls can encompass a wide range of techniques, from performance evaluations to quality control processes, and aim to ensure that non-financial goals and standards are being met.

Key Aspects:

- **Qualitative Standards:** Focus on standards such as product quality, customer satisfaction, employee behaviour, and service efficiency.
- **Monitoring Systems:** Includes operational metrics, employee performance, adherence to rules, and compliance with regulations.
- **Control Mechanism:** Managers monitor the organization's activities through various non-financial metrics and take corrective actions if performance falls short of expectations.

Types of Non-Budgetary Controls:

- **Statistical Quality Control:** Uses statistical tools to monitor and control quality in manufacturing processes. Example: Control charts used to detect variations in production quality.
- **Standard Operating Procedures (SOPs):** Defined processes that ensure consistency and compliance with operational standards. Example: Safety protocols in factories.
- **Performance Appraisals:** Evaluations of employee performance to ensure individual contributions align with organizational goals. Example: Annual reviews and feedback sessions.
- **Inventory Control:** Managing stock levels through non-financial systems like Just-In-Time (JIT), which aims to optimize inventory turnover.

- **Balanced Scorecard:** A performance measurement system that evaluates an organization across multiple dimensions (financial, customer, internal processes, learning, and growth).

Benefits:

- It encourages a broader view of organizational performance, beyond financial metrics.
- It helps to ensure consistent quality and service standards.
- It supports employee performance management and development.
- Can be more flexible and responsive to operational changes.

Example:

In a restaurant, non-budgetary control might focus on customer service quality, hygiene standards, and employee performance. Managers might implement mystery shopper evaluations or set specific customer satisfaction targets to monitor service quality and ensure standards are being met.

Comparison between Budgetary and Non-Budgetary Controls:

Aspect	Budgetary Control	Non-Budgetary Control
Focus	Financial performance, costs, and revenues	Qualitative, operational, and behavioural factors
Tools	Budgets (e.g., capital, cash, operating)	SOPs, performance appraisals, quality control
Control Approach	Quantitative and numerical comparisons	Qualitative evaluations and non-financial metrics
Main Objectives	Efficient resource allocation and financial health	Operational efficiency, quality, employee performance
Examples	Monitoring expenditure against a budget	Ensuring customer satisfaction, product quality

Conclusion:

- **Budgetary control** focuses on financial planning, expenditure, and revenue management to maintain the organization's financial health.
- **Non-budgetary control** emphasizes qualitative, operational, and behavioural aspects, ensuring that the organization's standards and procedures are followed, leading to overall efficiency.

Together, these controls ensure that an organization not only remains financially stable but also operates smoothly, maintaining quality and performance at all levels.

EXPLAIN THE TERM COST CONTROL.

Cost control refers to the process of managing and regulating the expenses of an organization to ensure that they do not exceed the budget or planned expenditure levels. It involves monitoring costs, comparing them against pre-established budgets or standards, identifying variances, and implementing corrective actions to maintain financial discipline. The primary goal of cost control is to minimize costs without compromising the quality of products or services.

Benefits of Cost Control:

1. Improved Profitability:

- By keeping costs within budget, organizations can improve their profit margins and ensure they are maximizing value from their resources.

2. Resource Optimization:

- Cost control helps in using resources more efficiently, reducing waste, and ensuring that each dollar spent contributes effectively to the output.

3. Increased Competitiveness:

- Companies that manage their costs well can price their products or services competitively without sacrificing profit margins, giving them an edge over competitors.

4. **Better Decision-Making:**

- With cost control mechanisms in place, management has clearer insights into where money is being spent, enabling more informed and strategic decisions.

5. **Financial Stability:**

- Cost control contributes to maintaining financial health and stability, preventing cost overruns that could lead to cash flow issues or financial losses.

Methods of Cost Control:

1. **Budgetary Control:**

- Involves setting budgets for different departments or projects and ensuring that actual spending stays within these limits.
- Example: Allocating a fixed marketing budget for a campaign and ensuring expenditures don't exceed it.

2. **Standard Costing:**

- Establishing cost standards for specific activities (e.g., labour, materials) and comparing actual costs with these standards to identify variances.
- Example: A company sets a standard labour cost of \$20 per hour and compares actual labour costs to see if they are higher or lower.

3. **Variance Analysis:**

- Examining differences between actual costs and budgeted costs, then identifying the reasons for these differences and taking action to control them.
- Example: Analysing why actual labour costs exceeded budgeted labour costs and identifying solutions.

4. **Inventory Control:**

- Managing inventory levels efficiently to minimize holding costs, reduce wastage, and avoid overstocking or understocking.
- Example: Implementing a just-in-time (JIT) inventory system to reduce inventory costs.

5. **Cost-Benefit Analysis:**

- Evaluating whether the benefits of an activity or project justify the costs involved and making decisions based on the outcomes.
- Example: Analysing whether investing in new machinery will reduce long-term production costs and improve efficiency.

6. **Activity-Based Costing (ABC):**

- Allocating costs based on the activities that drive expenses, ensuring more accurate cost distribution.
- Example: Assigning the cost of machinery maintenance directly to the products that use the machinery.

Challenges in Cost Control:

1. **Accurate Forecasting:**

- Predicting costs accurately can be difficult due to market fluctuations, price increases, or unexpected events.

2. **Employee Resistance:**

- Cost control measures may face resistance from employees if they lead to reductions in benefits, resources, or spending flexibility.

3. **Balancing Quality and Cost:**

- Cost control must be done carefully to avoid compromising product quality or service standards in the pursuit of savings.

4. **Dynamic Market Conditions:**

- Changing market conditions, such as inflation or supply chain disruptions, can impact the effectiveness of cost control measures.

EXPLAIN QUALITY CONTROL

Quality control (QC) is the process through which organizations ensure that their products or services meet or exceed customer expectations by maintaining and improving quality standards. It involves monitoring and testing processes, identifying defects or issues, and implementing corrective actions to enhance the quality of the output. QC is crucial for

maintaining consistency, ensuring customer satisfaction, and reducing costs associated with defective products or services.

Importance of Quality Control:

1. Customer Satisfaction:

- Ensuring that products meet or exceed quality standards helps build customer trust and satisfaction, leading to repeat business and a good reputation.

2. Cost Reduction:

- By identifying and fixing defects early in the production process, quality control helps reduce the costs associated with returns, repairs, and product recalls.

3. Compliance with Regulations:

- Many industries have strict quality standards mandated by regulatory bodies. Quality control ensures compliance with these regulations, avoiding legal penalties and maintaining licenses.

4. Competitive Advantage:

- Companies that consistently deliver high-quality products or services gain a competitive edge in the market, differentiating themselves from competitors.

5. Prevention of Defects:

- Proactive quality control practices help in preventing defects rather than fixing them after they occur, saving time and resources in the long run.

Methods of Quality Control:

1. Statistical Process Control (SPC):

- This method uses statistical techniques to monitor and control processes. It involves collecting data on a process and using control charts to detect any variations.
- Example: A factory might use SPC to monitor the temperature during the production of chemicals to ensure consistent quality.

2. **Total Quality Management (TQM):**

- TQM is an organization-wide approach to improving quality through the involvement of all employees, from top management to production staff. It emphasizes continuous improvement.
- Example: A service provider may adopt TQM to ensure all departments work together to meet customer expectations.

3. **Six Sigma:**

- Six Sigma is a data-driven approach to improving processes by identifying and removing causes of defects and variability. It aims for near-perfect quality with minimal defects.
- Example: A manufacturing plant might use Six Sigma to reduce defects in their production line and improve efficiency.

4. **Inspection:**

- Physical or visual examination of products or services is done at different stages of production to ensure they meet quality standards.
- Example: A food processing company may inspect raw materials before production and finished goods before packaging to ensure they meet health and safety standards.

5. **Quality Audits:**

- Internal or external audits are conducted to assess the effectiveness of a company's quality control processes. Audits identify areas for improvement.
- Example: A pharmaceutical company might undergo regular audits to ensure compliance with industry quality regulations.

6. **Failure Mode and Effects Analysis (FMEA):**

- This method identifies potential points of failure in a process and assesses their impact. By addressing these potential failures early, companies can prevent quality issues.
- Example: A car manufacturer might use FMEA to predict possible failures in the engine design and take preventive action.

Challenges in Quality Control:

1. Maintaining Consistency:

- Ensuring that all products consistently meet quality standards can be challenging, especially in large-scale production.

2. Cost of Quality:

- Implementing quality control processes can be costly, especially when defects require rework or when high standards necessitate the use of premium materials.

3. Resistance to Change:

- Employees may resist changes in processes or additional steps introduced as part of quality control measures, leading to challenges in implementation.

4. Identifying Root Causes:

- Determining the root causes of quality issues can be complex, especially if the problem stems from multiple factors in the production process.

5. Dynamic Market and Technology Changes:

- Changes in technology or customer preferences may require frequent updates to quality standards, making it challenging to maintain quality consistently.

EXPLAIN MAINTENANCE CONTROL

Maintenance control is the process of overseeing and managing the upkeep of machinery, equipment, and infrastructure to ensure smooth operations and prevent downtime due to unexpected breakdowns.

Key Aspects:

- **Preventive Maintenance:** Regularly scheduled maintenance to prevent equipment failure, extending the life of machinery, and avoiding costly repairs.
- **Corrective Maintenance:** Repairing equipment after a failure or breakdown to restore operations quickly.
- **Condition Monitoring:** Using tools and technology to monitor the performance of machinery in real-time to identify potential issues before they lead to equipment failure.
- **Inventory Management for Spare Parts:** Ensuring that critical spare parts are always available to minimize downtime when repairs are needed.

Example:

A manufacturing plant implements maintenance control by scheduling regular checks for all its machines and maintaining an inventory of essential spare parts to avoid production stoppages.