

## UNIT 5 CONTROLLING



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# UNIT-5

## INTRODUCTION TO CONTROL

Control is any process that guides activity towards some predetermined goals. Thus control can be applied in any field such as price control, distribution control, pollution control, etc. However, control as an element of management process can be defined as the process of analyzing whether actions are being taken place as planned and taking corrective actions to make these to conform to planning. Thus control process tries to find out deviations between planned performance and actual performance and to suggest corrective actions wherever these are needed.

Definitions:

**Terry** defines control as “Controlling is determining what is being accomplished, that is evaluating the performance and, if necessary, applying corrected measures so that the performance takes place according to plan.”

**Koontz and O’Donnel** define control as “Control is measurement and correction of the performance of activities of subordinates in order to make sure those enterprise objectives and plans devised to attain them are being accomplished”.

## CHARACTERISTICS OF EFFECTIVE CONTROL SYSTEM

**1. Accuracy:** Effective controls generate accurate data and information. Accurate

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information is essential for effective managerial decisions. Inaccurate controls would divert management efforts and energies on problems that do not exist or have a low priority and would fail to alert managers to serious problems that do require attention.

**2. Timeliness:** There are many problems that require immediate attention. If information about such problems does not reach management in a timely manner, then such information may become useless and damage may occur. Accordingly controls must ensure that information reaches the decision makers when they need it so that a meaningful response can follow.

**3. Flexibility:** The business and economic environment is highly dynamic in nature. Technological changes occur very fast. A rigid control system would not be suitable for a changing environment. These changes highlight the need for flexibility in planning as well as in

control. Strategic planning must allow for adjustments for unanticipated threats and opportunities. Similarly, managers must make modifications in controlling methods, techniques and systems as they become necessary. An effective control system is one that can be updated quickly as the need arises.

**4. Acceptability:** Controls should be such that all people who are affected by it are able to understand them fully and accept them. A control system that is difficult to understand can cause unnecessary mistakes and frustration and may be resented by workers. Accordingly, employees must agree that such controls are necessary and appropriate and will not have any negative effects on their efforts to achieve their personal as well as organizational goals.

**5. Ease of understanding:** Guidelines, standards and information systems must be simple to comprehend so that they are easily understood by one and all. This ease of understanding

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**6.** helps the concerned employees to follow guidelines and standards without difficulty and ambiguity.

**7. Economic feasibility:** The cost of a control system must be balanced against its benefits. The system must be economically feasible and reasonable to operate. For example, a high security system to safeguard nuclear secrets may be justified but the same system to safeguard office supplies in a store would not be economically justified. Accordingly the benefits received must outweigh the cost of implementing a control system.

**8. Strategic placement:** Effective controls should be placed and emphasized at such critical and strategic control points where failures cannot be tolerated and where time and money costs of failures are greatest. The objective is to apply controls to the essential aspect of a business where a deviation from the expected standards will do the greatest harm. These control areas include production, sales, finance and customer service.

**9. Corrective action:** An effective control system not only checks for and identifies deviation but also is programmed to suggest solutions to correct such a deviation. For example, a computer keeping a record of inventories can be programmed to establish —if-then guidelines. For example, if inventory of a particular item drops below five percent of maximum inventory at hand, then the computer will signal for replenishment for such items.

**10. Emphasis on exception:** A good system of control should work on the exception principle, so that only important deviations are brought to the attention of management, In other words, management does not have to bother with activities that are running smoothly. This will ensure that managerial attention is directed towards error and not towards conformity. This would eliminate unnecessary and uneconomic supervision, marginally beneficial reporting and a waste of managerial time.

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**11. Forward looking:** Control system should provide early information regarding the future changes and should forecast what would happen in the coming month or year.

### TYPES AND STRATEGIES FOR CONTROL

**1. Feed Forward Controls:** Feed forward controls, sometimes called preliminary or preventive controls, attempt to identify and prevent deviations in the standards before they occur.

- Feed forward controls focus on human, material, and financial resources within the organization.
- These controls are evident in the selection and hiring of new employees. For example, organizations attempt to improve the likelihood that employees will perform up to standards by identifying the necessary job skills and by using tests and other screening devices to hire people with those skills.

**2. Concurrent Controls:** Concurrent controls monitor ongoing employee activity to ensure consistency with quality standards. These controls rely on performance standards, rules, and regulations for guiding employee tasks and behaviors. Their purpose is to ensure that work activities produce the desired results.

- As an example, many manufacturing operations include devices that measure whether the items being produced meet quality standards. Employees monitor the measurements; if they see that standards are not being met in some area, they make a correction themselves or let a manager know that a problem is occurring.

**3. Feedback Controls:** Feedback controls involve reviewing information to determine whether performance meets established standards.

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For example, suppose that an organization establishes a goal of increasing its profit by 12 percent next year. To ensure that this goal is reached, the organization must monitor its profit on a monthly basis. After three months, if profit has increased by 3 percent, management might assume that plans are going according to schedule.

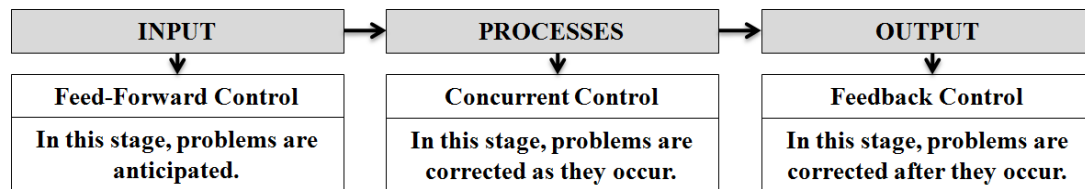


Fig: Types of control

#### STEPS IN CONTROL PROCESS

Control is a continuous process. It is not applied when be everything else is done. There may be some in-built controls in the exercise of managerial techniques. In spite of this, there may be a difference in standards to be achieved and actual performance. This may be due to human limitations. Some control methods may have to be applied to improve performance.

There are four steps in control process:

- 1. Setting of Control Standards:** Every enterprise plans its activities in advance. On the basis of plans, the objectives and goals of every department, branch, etc. are fixed. These, goals are converted into quantity, value, man hour etc. These are to be/achieved in future. There may also be qualitative goals. The achievement of various targets is made the

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responsibility of specific persons. The levels of achievement are also decided in advance. Whether a particular result is to be taken as satisfactory, average or poor should be pre determined so that the persons responsible for that work should be able to assess their

performance.

**2. Measurement of Performance:** The second step in controlling process is the measurement of performance. The actual performance is measured against the standards set. This will enable management to determine whether the work is being done according to plans or not. The measurement of quantitative objectives is easy since figures of work done will be available. The qualitative performance such as human relations, employee morale, etc. can only be measured

through psychological tests and surveys. If measurement is such that deviation is detected at the earliest then it will enable appropriate action well in time. If that is not possible then deviations should be detected as early as possible.

**3. Comparing Actual and Standard Performance:** The next step in control process is the comparison of actual performance with the standards set.

The purpose of this comparison is:

- (a) To find out deviations if any, and
- (b) To determine the reasons for such deviation.

While comparing actual performance with the standard, some permissible limits are also fixed. When the deviations are within the prescribed limits then there is no cause for worry. But if the deviations are more than the allowable limits then it calls for urgent action. This is also known as

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„management by exception.“ When things are going as per plans or within the allowable limits then top management is not required to take any note of it. But on the other hand if performance is not up to the level then it is brought to the notice of top management for taking corrective action. If the manager gives attention to every deviation then he will not be able to give enough time for important things.

When the actual performance is not up to the level then causes for it should be pin-pointed. Necessary steps are taken so that performance is not adversely affected once again. If no efforts are made to rectify the weak areas then the whole control process will be futile. Whenever the performance is low than the standards, the reasons for it should immediately be found.

**4. Taking Corrective Action:** The last but most important step in controlling process is of taking corrective action. Whenever the performance is less than the standards, efforts should be made to rectify it. Whatever the reasons for low performance, efforts are made to achieve organizational goals. No control process can automatically rectify the mistakes in a system. It is the action which is required to set the things right, sometimes the targets are not achievable even with more efforts then these will have to be revised. The control action may involve review of plans and goals, change in the methods of work, change in the assignment of task, change in existing techniques of direction and change in organization structure. The corrective action generally involves top management.

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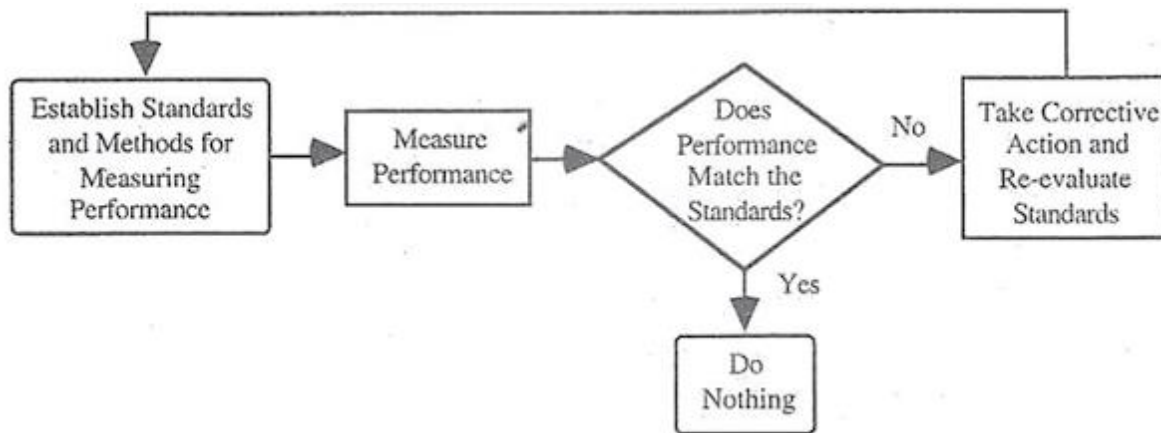


Fig: Steps in control process

### BUDGETARY AND NON-BUDGETARY CONTROLS

#### **Budget**

A budget is a plan expressed in quantitative and money terms. Budgets need to be prepared and approved in advance of the period in which they are to be used. Budgets can include some or all of income, expenditure, and the capital to be employed. Moreover, a budget can be drawn up for an entire organization, any segment of the organization such as a department or sales territory or division, or for a significant activity such as the production and sale of a specific product. In most cases budgets are prepared for the forthcoming financial year and further for the convenience these are usually divided into shorter intervals (mostly in months). This facilitates to check the actual results with the prepared budget, and any deviations between the two can be evaluated and corrected.

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### BUDGETARY CONTROL

Budgeting is the process of preparing budgets and „**budgetary control**“ is the technique of managerial control through budgets. Budgetary control is the process of determining various actual results with budgeted figures for the enterprise for the future period and standards set then

comparing the budgeted figures with the actual performance for calculating variances, if any. First of all, budgets are prepared and then actual results are recorded.

The comparison of budgeted and actual figures will enable the management to find out discrepancies and take remedial measures at a proper time. The budgetary control is a

continuous process which helps in planning and co-ordination. It provides a method of control too. A budget is a means and budgetary control is the end-result.

Budgetary control involves the follows:

- (a) The objectives are set by preparing budgets.
- (b) The business is divided into various responsibility centers for preparing various budgets.
- (c) The actual figures are recorded.
- (d) The budgeted and actual figures are compared for studying the performance of different cost centers.

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- (e) If actual performance is less than the budgeted norms, a remedial action is taken immediately.

### Types of Budgets

There are many types of budgets. Budgets are formulated based on the purpose and what we want to plan and control. Here are the types of budgets.

- 1) **Production Budget:** This budget explains how much volume of each type of product is produced for the given period. This becomes the base for the production manager to plan his operations.
- 2) **Sales Budget:** The organization may have sales mix of different products and how much will be the sales for each product or service is outlined here.
- 3) **Advertisement Budget:** This budget speaks about the funds allotted for print media, electronic media, sales promotions through hoardings, direct sales, etc. The marketing manager has to plan his sales promotion activities within the framework set by this budget.
- 4) **Labour Hours Budget:** How many labour hours are required for a product to be finished?. How many hours are required from skilled labour, unskilled labour and semi-skilled labour?. This budget is a bible for the production manager and he plans his production schedules accordingly.
- 5) **Machine Hours Budget:** Different machines may be required to be coordinated to produce a finished product. This budget specifies the number of hours required to be utilized from each machine. This budget is a bible for the production manager and he

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plans his production schedules accordingly.

- 7) **Overhead Budget:** Fixed overheads and variable overheads are planned for different departments here.
- 8) **Space Budget:** The space is a costly issue and it is necessary to use the limited space in an optimum way. Which department requires what space, which facility requires what area are outlined here.
- 9) **Materials Budget:** There could be different types of materials used in the factory. This budget specifies the requirements of different materials and it is purchase manager's responsibility to provide for the quantities as outlined in this budget.
- 10) **Cash Budget:** This is a statement of receipts and payments for a given future period. It shows clearly during what period there is deficit or surplus. Accordingly, the manager can plan for investing the surplus funds or borrowing from bank when there is a deficit.
- 11) **Capital Expenditure Budget:** This shows how much funds are allocated for acquiring different long term investment proposals such as purchase of plant and machinery, land
- 12) and buildings etc.
- 13) **Master Budget:** This is an overall budget which summarizes and integrates different individual budgets within the organization.
- 14) **Flexible Budget:** For different levels of capacity of production, the flexible budget shows what expenses change in proportion to the volume of production and what expenses remain fixed throughout. This budget is also called variable budget.

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- 15) **Zero Based Budgeting:** Budgets are more or less a marginally to moderately to significantly revised version of the last year budgets and more often there is tendency to take forward the previous years' assumptions and presumptions. In zero based budgeting, the current year's requirements are seen from the fresh perspective. If they are important, they will be considered or otherwise, they are dropped. In other words, the budget for each item starts from zero, costs are calculated afresh based on the requirements for the budget period. It avoids the tendency of taking the previous data as base to work for the future. If there is requirement, then only provisions are made otherwise, they are not considered. This makes the managers to plan each program package afresh. The mistakes, if any, in the previous budgets are not brought forward here.

### NON-BUDGETARY CONTROL

Non-budgetary control devices support the successful functioning of the budgetary control system. These include the following:

- 1) **Statistical data:** Statistical analyses of innumerable aspects of a business operation and the clear presentation of statistical data, whether of a historical or forecast nature are, of course, important to control. Some managers can readily interpret tabular statistical data,
- 2) but most managers prefer presentation of the data on charts.
- 3) **Special reports and analysis:** Analytical reports and industry trends and patterns need to be prepared in advance to provide a direction and guidance with the help of industry experts and specialists engaged for the specific task.

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- 4) **Break- even point analysis:** An interesting control device is the break even chart. This chart depicts the relationship of sales and expenses in such a way as to show at what volume revenues exactly cover expenses.
- 5) **Internal audit:** Another effective tool of managerial control is the internal audit or, as it is now coming to be called, the operational audit. Operational auditing, in its broadest sense, is the regular and independent appraisal, by a staff of internal auditors, of the accounting, financial, and other operations of a business.
- 6) **Network analysis:** The Program (or Project) Evaluation and Review Technique, commonly abbreviated PERT, is a method to analyze the involved tasks in completing a given project, especially the time needed to complete each task, and identifying the minimum time needed to complete the total project.
- 7) **Standard costing and variance analysis:** Standard costing is process of formulating material standards, labour standards and overheads standards and verifying whether the actual expenses are within the given standard are not. Where there is difference between the actual and standard expenses, it is called variance. The manager's job is to ensure that the variances are reduced to minimum.
- 8) **Ratio analysis:** Ratio analysis shows the relationship between two factors. Ratio analysis is a financial analysis tool used to examine whether the liquidity, solvency or profitability of the enterprise are within the acceptable standards or not.
- 9) **Personal observation:** Managers need to spend time by going around the department, speaking to the employees so that they can get first-hand information about what is
  
- 10) happening around. By going around the departments, senior managers may come across many issues which cannot be put on paper but critical in nature can be sorted out on time.

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### ESTABLISHING CONTROL SYSTEMS

The purpose of control systems is to achieve the goals and objectives of an organization with ease and at least cost. The ultimate purpose of any system is that it should be „in control“ instead of controlling people. It also aims at assisting management in the coordination of the parts of an organization and the steering of those parts toward the achievement of its overall purposes, goals and objectives.

**1. Well-defined Objectives and Goals:** The objectives and goals of the organisation should be crystal clear and well-defined in the process of control. The organisational goals should be split into sub-goals at departmental level. The operation of the various functions and their coordination should be vested in the hands of the executives who are armed with sufficient authority or power to fulfill their responsibility. The planned goals of the enterprise or of a particular department serve as a standard for performance measurement.

**2. Determination of Strategic Point of Control:** The responsibility centers and strategic points of control should be selected and fixed. To make the control process effective, the management should concentrate upon strategic points only.

**3. Establishment of Control Standards:** These standards are established criteria against which actual performance can be compared and measured in terms of money, time, physical units or some other index. The object of predetermined standards is that comparison between actual performance and targets performance is made possible.

**4. Determination of Controllable Costs and Control Period:** Optimum control does not mean excessive control. Sometimes good results are achieved only if critical points are identified. Secret of good control is to establish strategic points where corrective actions will

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5. be the cheapest and most effective.

**6. Strengthening the Organisation:** The complete framework of control is aimed at strengthening the organisation. Planning is a prerequisite. Control should be tailored to fit the organisation. There should be a system of checks on the managerial activity of subordinates. The organisation should be strengthened first to overcome the weaknesses of deviations. Controls should incorporate sufficient flexibility in them so as to remain effective despite the failure of plan.

**7. Measurement of Performance:** The evaluation of performance is very necessary. It involves the measurement of performance in respect of work and in terms of control standards. In the opinion of Peter F. Drucker, the measurement of performance must be clear, simple, rational, relevant and reliable. The effectiveness of a control system depends upon the prompt reporting of past results to the persons who have power to produce changes. The next step is to compare the performance with the planned standards. It is important to determine the limits within which the variations can be held and still to be regarded within control when performance is measured accurately. To assess whether actual performance is in accordance with the target comparison with the standard has to be made and the variation is properly analysed to understand the reason for the variation. The comparison should be done at frequent intervals so that immediate corrective action could be taken.

**8. Control Period:** The proper control period is the shortest period of time in which management can usefully intervene and in which significant changes in performance are likely. The period is different for different responsibility centres and for different items within responsibility centres. Spoilage rates in a production operation may be measured hourly or often.

The key cost element of the centre may be measured daily. Reports on overall performance, particularly those going to the levels of management are often on a monthly basis and

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sometimes for quarterly or longer intervals, since top management does not have either the time or the inclination to explore the local temporary problems.

### CONTROL FREQUENCY AND METHODS

It is understood that the organizational objectives are accomplished with the help of controls. But, now the question is:

How frequently, these controls are to be employed?

To answer this question, the manager should understand the controlling frequency and various techniques based on the frequency. With reference to control frequency, the control methods may be classified into three categories as constant, periodic and sporadic control, which can be further divided as shown in the following figure.

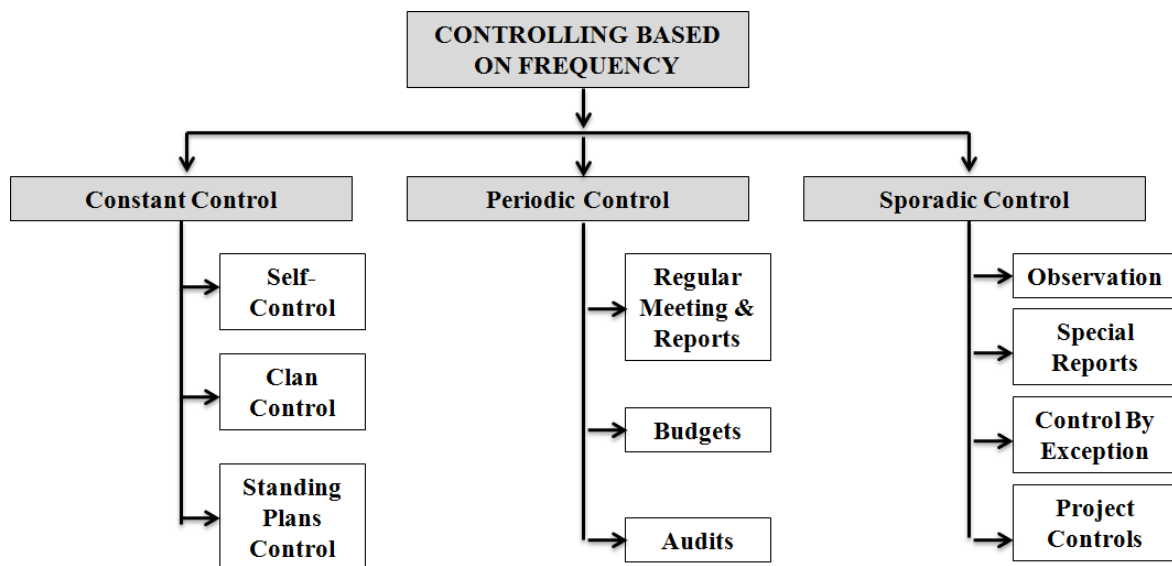


Fig: Classification of control methods based on frequency

#### I. Constant Controls

Constant controls are continuous controls which are found to be three ways as follows:

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1) **Self-control:** Employees take the advantage if the management is not

2) observing and monitoring the performance. So, there is chance that employee may not perform their

job to the desired level. But, if a culture of self-control is established, then the controller's job becomes a cakewalk. The management controlling techniques such as CCTV cameras, programmed instructions, and strict imposition of the rules and regulations or fines/penalties/disciplinary action, etc. may inculcate the self-control in the employees.

3) **Clan control:** Clan control also referred to as group control is a form of human resources control in which firms will depend largely on their norms and culture to ensure specific behaviour. Organizations that have teams depend on clan control.

4) **Standing plans:** Under this control, the organizations will develop and frame, rules, procedures and policies in order to influence the employee behavior continual and predictable situations. Standards are similar to standing plans that are in constant use.

### II. Periodic Control

Periodic controls are used on a regular schedule basis such as once in a day, week or every fortnight or at the end of the month or a quarter or year. Periodic control includes regular meetings and reports, budgets and audits.

1) **Regular meeting and reports:** These can be in the form of written or oral. All organizations will have regularly scheduled meetings with one or more workers in the organization to address and discuss various issues like problems and progress. The frequency of these meetings may be daily, weekly, or monthly.

2) **Budgets:** At the end of the every year, it is reworked for the next year. If any

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changes occur such as overspending due to an increase in final cost, then a budget may require damage control.

- 3) **Audits:** There are two major types of audits: accounting auditing and  
  
4) management auditing. The accounts department is supposed to maintain records of the organization's transactions and assets. Internal auditors will check the accounting records periodically. The management audit examines the organization's planning, organizing, leading and controlling functions for improvement.

### III. Sporadic Control

Sporadic control means occasional control. Occasional controls are used on intermittent basis wherever required.

- 1) **Observation:** In this control, managers personally observe and interact with the employees as they perform their jobs. Management by walking around is a proven method of personal observation to improve performance.
- 2) **Control by exception:** In this principle, the control is left to the employees. If the employees find any problems, they approach the manager for help. In order to reach the performance as per the schedule, corrective actions are taken.
- 3) **Special reports:** If any problems are identified, then special reports are compiled by a committee within the department/organization, or outside consultants who are specialized in that area. Such reports are designed to identify the cause of a problem as well as solution.
- 4) **Project controls:** These controls are applied to unique and non-recurring projects. In this controlling method, the manager develops a control system in order to make sure that the project is completed on time. The planning tools such as PERT and Gantt Charts can be used as project control method.

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