

# **Chapter 8**

# **Controlling**

## Chapter 8 Controlling

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### Short Questions

**Q1. If you want to control everything you may end up controlling.**

**Ans1.** Management By Exception.

**Q2. Define Management Audit.**

**Ans2.** Systematic appraisal of the overall performance of the management of an organization.

**Q3. Why is controlling considered to be a backward looking?**

**Ans3.** Controlling involves evaluation of past activities to find out deviations from standards so it is a backward looking function.

**Q4. Name two types of profitability ratios?**

**Ans 4.** a) Gross Profit Ratio

b) Net Profit Ratio.

**Q5. What do you call the sales volume at which there is no profit, No loss?**

**Ans5.** Breakeven Point (BEP).

**Q6. Give 2 examples of Corrective Action.**

**Ans 6.** a) Provide training

b) Revive standards.

**Q7. Give two examples of responsibility centers.**

**Ans7.** Cost Centre, revenue center etc.

**Q8. Marketing department comes under which type of responsibility center.**

**Ans8.** Revenue Centre.

**Q9. Give the formula of Return on Investment.**

**Ans 9.** Net Profit

Total investment

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**Q10. What do you understand by key KRAs result areas?**

**Ans10.** The areas which are critical to the success of an organization.

**Q11. Why planning is an empty exercise without controlling? (1)**

**Ans11.** Planning is an empty exercise without controlling because implementation of plans and monitoring of plan depend upon controlling.

**Q12. Which two steps in the process of controlling are concerned with compelling events to conform to plan?**

**Ans12** a) Comparison of actual performance with standards.  
b) Taking corrective actions.

### Exercises

#### Very Short Questions

**1. Explain the meaning of controlling.**

Controlling is referred to as the process of evaluation of the work that is done. It is all about setting standards for the work and then comparing the actual work that is done with the standard. It ensures that all the activities in an organisation are performed as per the decided plan.

**2. Name the principle that a manager should consider while dealing with deviations effectively. State any one situation in which an organisation's control system loses its effectiveness.**

The principle that should be adopted to deal with deviations is management by exception. An organisation's control system loses effectiveness when standards are not able to be defined in quantitative terms. For example, job satisfaction will be different for different employees.

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**3. State any one situation in which an organisation's control system loses its effectiveness.**

A control system is bound to lose its effectiveness whenever the standards cannot be defined in quantitative terms, thereby making it difficult to measure deviations happening between actual and standard performance. For example, job satisfaction cannot be described in quantitative terms as it is different for different employees.

**4. Give any two standards that can be used by a company to evaluate the performance of its Finance & Accounting department.**

Standards that are used by a company for evaluating the performance of the Finance and Accounting department are as follows:

1. Liquidity
2. Flow of Capital

**5. Which term is used to indicate the difference between standard performance and actual performance?**

The deviation is the term that is used to indicate the difference between standard and actual performance.

### Short Questions

**1. 'Planning is looking ahead and controlling is looking back'. Comment.**

Planning is the process of creating a structure in advance regarding the work that needs to be done. It is helpful in defining the objectives and goals that need to be achieved by an individual or organisation. Therefore, it is said that planning is about looking ahead, which involves predicting about future. Controlling takes into consideration the assessment of past performance and comparing them with set standards. Due to these characteristics, it can be said to be a backward-looking future. But all these statements are partially correct, as planning is done based on past experiences and how to do better, similarly controlling although looks at past performance, its aim is to improve future performance. Hence, it can be said that both planning and controlling are forward and backward-looking functions.

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### **2. ‘An effort to control everything may end up in controlling nothing’. Explain.**

This statement is with regard to the principle of management by exception. As stated in this rule, it is not possible to control everything effectively. This principle states that instead of trying to control all the deviations, there should be some defined ranges that are set up, and only when the deviations go beyond the range they should be notified to managers for control measures.

### **3. Write a short note on budgetary control as a technique of managerial control.**

Budgetary control is a technique that is related to preparing plans in the form of budgets. It is a financial statement that tells us what needs to be achieved and the policies that need to be followed for the time period. Performance is compared with the standards that were set in the budget. Such a comparison helps in the identification of deviation and helps in taking corrective steps. There can be different budgets for different divisions. Budgets act as motivation for employees and encourage them to reach their objectives. With proper budgeting measures, resources can be evenly distributed and utilised appropriately.

### **4. Explain how management audit serves as an effective technique of controlling.**

Management audit is the process of appraisal of the management in an organisation. It is useful in improving the effectiveness of the management to carry out its objectives. It evaluates the functions of the managers and highlights areas where deficiencies are observed. The following point will be helpful in explaining the importance of management audit as a technique of controlling:

1. It helps in identifying deficiencies in the work, which will help in taking corrective measures necessary for improvement.
2. By performing a management audit, various management activities can be monitored, which helps in improving the overall efficiency of the organisation.

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3. Enhanced coordination can be observed between employees and departments as work is monitored for effectiveness.

4. Helps organisation to adapt to environmental changes, and this can be ensured by having strategies and policies updated continuously.

**5. Mr. Arfaaz had been heading the production department of Writewell Products Ltd., a firm manufacturing stationary items. The firm secured an export order that had to be completed on a priority basis, and production targets were defined for all the employees. One of the workers, Mr. Bhanu Prasad, fell short of his daily production target by 10 units for two days consecutively. Mr. Arfaaz approached Ms. Vasundhara, the CEO of the Company, to file a complaint against Mr. Bhanu Prasad and requested her to terminate his services. Explain the principle of management control that Ms. Vasundhara should consider while taking her decision.**

In this situation, the principle of management by exception should be followed. This principle states that any effort to control everything may end up having control of nothing. Only deviations that are beyond the limit will need to be acknowledged, and appropriate actions need to be taken. Therefore, Mr. Bhanu should not be terminated for such a small reason.

### Long Questions

**1. Explain the various steps involved in the process of control.**

Controlling is a systematic approach to managing the activities in an organisation. It includes the following steps:

1. Setting standards: This step involves setting standards and developing benchmarks on the basis of which actual performance can be determined. Standards can be either qualitative or quantitative.

2. Measure actual performance: After setting standards, the next step is determining the actual performance that is taking place through the activities. These can be determined by observation and obtaining data from performance reports.

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3. Comparing performances: This step involves comparing the actual performance with the standard. It helps determine the deviations, which guides managers in assessing the performance and taking necessary steps.

4. Analysing deviation: When comparing actual performance with set standards, there will be deviations. It is, therefore, important to find these deviations in the key areas. The methods most used are Critical Point Control and Management by exception.

5. Corrective measures: When deviations reach beyond admissible limits, the management needs to take corrective actions. This step is all about correcting the errors so that they do not happen again. It is the last step that is taken in the process of controlling.

### **2. Explain the techniques of managerial control.**

Managerial control techniques can be divided into two categories:

1. Traditional Technique
2. Modern Technique

Traditional techniques are techniques that were followed by managers in the old days. The following are the techniques followed:

1. Personal observation: Managers oversee the work conducted by employees in this technique. Managers will be getting the right information which makes workers keen on performing well. But, it is a time-consuming process.
2. Statistical reports: Managers can get the performance data which is in the form of average percentages or ratios, and it can be easily represented in charts and graphs. Therefore, a comparison of performance with standards is determined.
3. Break-even analysis: To determine profit or loss, break-even analysis is used. It is that point where total costs become equal to total revenue. Using this technique, managers can determine profit or loss and thereby devise ways to generate profit.

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4. Budgetary control: It is a technique where future business operations are determined in the form of budgets. It sets standards for measuring actual performance.

Modern techniques are more recently introduced. It provides ideas for having better control. The following are the modern methods:

1. Return on investment: It is referred to as the gains or similar benefits that are earned on the amount of investment done. It gives a good idea of the returns a company is earning with the amount of investment done.
2. Ratio analysis: It is calculating various ratios for analysing the financial statement. Ratios such as liquidity ratio, solvency ratio etc., help determine the stability of a business.
3. Responsibility accounting: Various responsibility centres are established, and each centre head is responsible for the outcome of the centres. The responsibility centre includes the cost centre, revenue centre, investment centre and profit centre.
4. Management audit: It is an audit of the management processes. It checks the capability of the management and identifies the deficiencies present in the system. It is done through continuous monitoring.
5. PERT and CPM: These are modern management techniques that help determine the scheduling and resource allocation, it enables project execution in the most effective way. These techniques are used in construction, shipbuilding industries etc.
6. MIS: Management Information System is the process of controlling that helps in effective decision-making. It also is cost-effective and helps in the collection and dispersal of information across levels.



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

The following are the importance of controlling in an organisation:

1. Controlling helps in achieving organisational goals by optimum use of resources and correcting deficiencies in the process.
2. It helps in determining the accuracy of the standards set by management. It also helps in reviewing the standards as per changing business requirements.
3. It helps an employee to become motivated as they know what the management expects from them.
4. It also enables effective decision-making in the organisation by promoting order and discipline.
5. It improves coordination among employees and departments, which helps organisation productivity.

Controlling is effective for management, but there are certain problems that are faced by organisations which are highlighted below:

1. The set of standards cannot be set for both qualitative and quantitative terms, as qualitative terms make controlling less effective.
2. Changing factors in the business environment result in changing of control mechanisms in an organisation.
3. Controlling will be resisted if it is against the comfort level of employees.
4. Controlling is a costly affair as infrastructure needs to be set up.

### **4. Discuss the relationship between planning and controlling.**

Planning and controlling are very closely related functions of management. Planning is the process of creating a structure in advance regarding the work that needs to be done. It is helpful in defining the objectives and goals that need to be

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achieved by an individual or organisation. Therefore, it is said that planning is about looking ahead, which involves predicting about future. Controlling takes into consideration the assessment of past performance and comparing them with set standards. Due to these characteristics, it can be said to be backward-looking future.

Various objectives that are determined by planning will serve as a set of standards against which performance will be determined. If no standards and objectives are present, there will be no control necessary. Similarly, only by planning without control no one will monitor the work, which will lead to inefficiency and lack of productivity. Planning and control complement each other.

But all these statements are partially correct, as planning is done based on past experiences and how to do better, similarly controlling, although looks at past performance, its aim is to improve the future performance. Hence, it can be said that both planning and controlling are forward and backward-looking functions and are very important from an organisation's point of view.

**5. A company, 'M' limited, manufactures mobile phones, both for the domestic Indian market as well as for export. It enjoyed a substantial market share and also had a loyal customer following. But lately, it has been experiencing problems because its targets have not been met with regard to sales and customer satisfaction. Also, the mobile market in India has grown tremendously, and new players have come with better technology and pricing. This is causing problems for the company. It is planning to revamp its controlling system and take other steps necessary to rectify the problems it is facing.**

- a. Identify the benefits the company will derive from a good control system.**
- b. How can the company relate its planning with control in this line of business to ensure that its plans are actually implemented and targets attained?**
- c. Give the steps in the control process that the company should follow to remove the problems it is facing.**

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a. The company will derive the following benefits from a good control system:

i. Deficiencies in the system will be identified, and corrective steps can be taken accordingly. It helps the organisation to move towards the objective in the right way.

ii. Accuracy of set standards can be determined. If needed, the set of standards can be appropriately modified.

iii. Optimum resource utilisation will occur, so there will be less wastage of resources and more efficiency.

iv. The employees will be aware of their roles and expectations from the management, which motivates them to achieve the objective of the organisation.

b. Planning and controlling are closely related functions. While planning is all about what objectives need to be achieved and the steps to follow, controlling is about evaluating the work as per standards and taking necessary corrective actions as required. In the current situation, plans can be made with regard to customer satisfaction, sales and pricing policy. In the event of a lack of standards, there will be no control.

c. The company should follow the steps as mentioned below:

1. Standards should be set up which will serve as a benchmark for comparison against actual performance. Standards can be either qualitative or quantitative.

2. After setting the standards, actual performance needs to be analysed. It can be done by personal observation and collecting reports of performance.

3. The next step would be to compare the performances with standards and find deviations; then, necessary corrective steps can be taken to rectify them.

4. Deviations that are over the permissible range should be worked upon. It can be analysed using critical point control and management by exception methods.

5. The corrective steps are the last part of controlling as it works towards correcting deficiencies of the organisation.

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**6. Mr. Shantanu is the Chief Manager of a reputed company that manufactures garments. He called the production manager and instructed him to keep a constant and continuous check on all the activities related to his department so that everything goes as per the set plan. Also, the Chief Manager suggested the production manager to keep track of the performance of all the employees in the organisation so that targets are achieved effectively and efficiently.**

**a. Describe any two features of controlling highlighted in the above situation. (Goal oriented, continuous and pervasive – any 2).**

**b. Explain any five points of importance of controlling.**

a. Following features of controlling are highlighted here:

- i. By keeping a close watch on the progress of work and constantly engaging in work towards attaining the goals of the organisation, it is a goal-oriented approach.
- ii. Controlling is a pervasive function which can be exercised by managers of any level, division or department.

b. Following are the points of controlling:

- 1. Controlling helps in achieving the organisational goals by optimum use of resources and correcting deficiencies in the process.
- 2. It helps in determining the accuracy of the standards set by management. It also helps in reviewing the standards as per changing business requirements.
- 3. It helps an employee to become motivated as they know what the management expects from them.
- 4. It enables effective decision-making in the organisation by promoting order and discipline.
- 5. It improves coordination among employees and departments, which helps organisation productivity.

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### Multiple Choice Questions

1. In a marketing firm, the Financial Manager pays more attention towards an increase of 3% in the marketing cost as compared to a 15% increase in the courier expenses. Identify the concept being used by the manager.

- (a) Management by exception
- (b) Critical point control
- (c) Corrective action
- (d) None of the above

**Answer: (b) Critical point control**

2. Reducing the workers, absenteeism in a factory by 20% is an example of \_\_\_\_\_.

- (a) Quantitative standard
- (b) Qualitative standard
- (c) Deviation
- (d) None of the above

**Answer: (a) Quantitative standard**

3. Which of the following is not important for controlling function?

- (a) It ensures order and discipline.
- (b) It restricts coordination in action.
- (c) It helps in judging the accuracy of standards.
- (d) It improves employee motivation.

**Answer: (b) It restricts coordination in action.**

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4. Controlling is known as a backward-looking function because \_\_\_\_\_.

- (a) It relates to a future course of action.
- (b) It is like a post-mortem of the past activities
- (c) To find out deviation, it aims at improving future performance.
- (d) All of the above

**Answer: (b) It is like a post-mortem of the past activities**

5. Which of the following statements does not highlight the relationship between planning and controlling?

- (a) Planning and controlling are separable twins of management.
- (b) Planning without controlling is meaningless; controlling without planning is blind.
- (c) Planning is prescriptive, controlling is evaluative.
- (d) Planning and controlling are interrelated and interdependent.

**Answer: (a) Planning and controlling are separable twins of management.**

6. The need for the controlling function is felt in \_\_\_\_\_.

- (a) Business organisations
- (b) Political organisations
- (c) Social organisations
- (d) All of the above

**Answer: (d) All of the above**

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7. It is the process of ensuring that events conform to plans.

- (a) Planning
- (b) Controlling
- (c) Organising
- (d) Directing

**Answer: (b) Controlling**

8. In an artificial plant manufacturing unit, the standard output set for a worker is 50 units per day. Dinesh produces 48 units in one day. In the given case, the value of deviation is \_\_\_\_\_.

- (a) -2
- (b) + 2
- (c) 98
- (d) None of the above

**Answer: (a) -2**

9. The controlling function is performed by \_\_\_\_\_.

- (a) Top-level management
- (b) Lower level management
- (c) Middle level management
- (d) All of the above

**Answer: (d) All of the above**

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**10.** When the deviations between the actual performance and the planned performance are within the limits \_\_\_\_\_.

- (a) A limited corrective action is required
- (b) No corrective action is required
- (c) A major corrective action is required
- (d) None of the above

**Answer: (b) No corrective action is required**

**11.** Controlling function brings the management cycle back to the \_\_\_\_\_.

- (a) Organising function
- (b) Directing function
- (c) Planning function
- (d) None of the above

**Answer: (c) Planning function**

**12.** This concept of Control Management is based on the belief that if you try to control everything, you may end up controlling nothing.

- (a) Critical point control
- (b) Key result areas
- (c) Management by exception
- (d) Deviations

**Answer: (c) Management by exception**



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**13.** Identify the correct sequence of the steps involved in the controlling process.

- (a) Measurement of actual performance, Taking corrective action, Setting performance standards, Comparison of actual performance with standards, Analysing deviations
- (b) Comparison of actual performance with standards, Setting performance standards. Measurement of actual performance, Analysing deviations, Taking corrective action
- (c) Setting performance standards, Measurement of actual performance, Comparison of actual performance with standards, Analysing deviations, Taking corrective action
- (d) Taking corrective action, Measurement of actual performance, Comparison of actual performance with standards, Analysing deviations, Setting performance standards

**Answer: (c) Setting performance standards, Measurement of actual performance, Comparison of actual performance with standards, Analysing deviations, Taking corrective action**

**14.** Deviations are said to be positive in nature when \_\_\_\_\_.

- (a) Planned performance is more than the actual performance
- (b) Actual performance is more than the planned performance
- (c) Both planned and actual performances are the same
- (d) None of the above

**Answer: (b) Actual performance is more than the planned performance**

**15.** Which of the following is a technique used for measuring actual performance?

- (a) Random sampling
- (b) Personal observation

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(c) Performance reports

(d) All of the above

**Answer: (d) All of the above**

### Summary

**Meaning & Definition:** Controlling involves comparison of actual performance with the planned performance. If there is any difference or deviation, then finding the reasons for such difference and taking corrective measures or action to stop those reasons so that they don't re-occur in future and that organizational objectives are fulfilled efficiently.

#### **Importance of Controlling**

**1. Controlling helps in achieving organizational goals:** The controlling function measures progress towards the organizational goals and brings to light/indicates corrective action.

**2. For Evaluating/Judging accuracy of standards:** A good control system enables management to verify whether the standards set are accurate or not by careful check on the changes taking place in the organizational environment.

**3. Making efficient use of resources:** By the process of control, a manager seeks to reduce wastage of resources.

**4. Improves employees motivation:** A good control system ensures that employees know well in advance what they are expected to do & also the standard of performance. It thus motivates & helps them to give better performance.

**5. Facilitating Coordination in action:** In controlling each department and employee is governed by predetermined standards which are well coordinated with one another. Control provides unity of direction.

**6. Ensuring order and discipline:** Controlling creates an atmosphere of order and discipline in the organization by keeping a close check on the activities of its employees.

#### **Nature of Controlling/Features of Controlling**

**1. Goal oriented:** Controlling is directed towards accomplishment of organizational goals in the best possible manner.

**2. Pervasive:** Controlling is an essential function of every manager and exercised at all levels of management.

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3. Continuous: It is not an activity to be pursued in the end only; it has to be done on a continuous basis.
4. 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.
5. 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.
6. Depends on planning: It presupposes existence of planning because without planning no control is possible.
7. Action oriented\*: Control has no meaning if no corrective action is taken; So timely action should be taken to prevent deviations.
8. Primary Function of Management\* – controlling is performed at all levels and in all types of organizations.
9. 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
  - Taking corrective action so that they don't repeat in futureThese 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.



### Relationship between Planning and Controlling

Planning and controlling are interrelated and in fact reinforce each other in the sense that-

1. Planning is pre-requisite for controlling. Plans provide the standard for controlling. Thus, without planning, controlling is blind. If the standards are not set in advance managers have nothing to control.
2. Planning is meaningless without controlling. It is fruitful when control is exercised. It discovers deviations and initiates corrective measures.

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3. Effectiveness of planning can be measured with the help of controlling.

**4. Planning is looking ahead and controlling is looking back:** Planning is a future oriented function as it involves looking in advance and making policies for the maximum utilization of resources in future that is why it is considered as forward looking function. In controlling we look back to the performance which is already achieved by the employees and compare it with plans. If there are deviations in actual and standard performance or output then controlling functions makes sure that in future actual performance matches with the planned performances. Therefore, controlling is also a forward looking function. Thus, planning & controlling cannot be separated. The two are supplementary function which support each other for successful execution of both the function. Planning makes controlling effective whereas controlling improves future planning.

### Controlling Process

**1. Setting Performance Standards:** Standards are the criteria against which actual performance would be measured. Thus standards become basis for comparison and the manager insists on following of standards.

**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. Analysing Deviations:** The deviations from the standards are assessed and analysed 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.

### Limitations of Controlling

1. Difficulty in setting quantitative standards:

Control system loses its effectiveness when standards of performance cannot be defined in quantitative terms. This makes comparison with standards a difficult

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task.

e.g areas like human behaviour, employee morale, job satisfaction cannot be measured quantitatively.

2. Little control on external factors:

An enterprise cannot control external factors like government policies, technological changes, competition. etc.

3. Resistance from employees:

Control is resisted by the employees as they feel that their freedom is restricted.

E.g employees may resist and go against the use of cameras to observe them minutely.

4. Costly:

Control involves a lot of expenditure, time and effort. A small enterprise cannot afford to install an expensive control system.

Managers must ensure that the cost of installing and operating a control system should not exceed the benefits derived from it.