

# Diploma in Financial Management & Accountability

*- a joint initiative of TISS & FMSF*

## Course Material



Control Systems  
Paper - VI

Module - III  
Faculty - Suresh Kejriwal

## **UNIT-1**

### **INTRODUCTION ABOUT CONTROL SYSTEM**

Since we would be using the word "Control" over and over again it is very important for us to understand the meaning and concept of Control. We would at the same time try to understand its importance in regard to the organizations and their related functional aspects.

Control is a systematic effort to set performance standard with planning objectives. It is any process that guides activity towards some predetermined goals.

#### **1.1. Introduction**

For an organization to function effectively certain goals and objectives must be set clearly. Control in a way, helps to measure the progress towards the accomplishment of such goals. It should be noted that plans are realized only through effective managerial control.

The following definitions make the concept of control clearer:

"Managerial control implies measurement of accomplishment against the standard and the correction of deviations to assure attainment of objectives according to plans." - Koontz & Donnell.

"Control consists in verifying whether everything occurs in conformity with the plans adopted, the instructions issued and the principles established." - Henry Fayol.

"Control maintains the equilibrium between ends and means, output and efforts" - Peter Drucker.

As it is clearly seen, control involves the setting of standards, which will have to prevail in the organization. To achieve this, resources will have to be closely monitored. As such, information about the actual performance of the organization

will have to be known. In turn this level of performance will be measured with the performance stated at the very beginning. Consequently appropriate action can be taken.

### **1.2. Elements of Control**

Summarizing the above, we come to the four basic elements of control. These are:

1. Setting standards of Performance at strategic points
2. Leading, motivating, supervising, directing, guiding the employees
3. Measurement of actual performance
4. Its comparison with the stated standards of performance

However, in all organisations, control should be effective; effective in helping the organisation in achieving its pre-determined goals. There should be certain pre-requisite points, which should be essential to control. These form the characteristics of effective control to bring into existence – the effective control.

### **1.3. Elements of Effective Control**

#### **1. Suitability :**

The technique of control to be used should suit the organizational working system. Different departments should have different systems of control.

#### **2. Deviations:**

Any change in conditions should be reported well in advance so that immediate action can be taken to avoid loss or damage.

#### **3. Objective:**

Control should be done with accurate and suitable standards. Management should take into consideration the proper objectives of the organisation for control to be effective.

**4. Predictions:**

Control should also aim for the future. If necessary steps are taken well in advance, the management will be able to take both corrective and precautionary measures.

**5. Flexible:**

Necessary flexibility is required in the control design so that control can be effective when there are some unforeseen changes in pre-determined plans.

**6. Economic:**

It should be made sure that the benefits derived from the system should be more than the cost incurred from the control system.

**7. Understandable:**

The whole process should be clearly understood by everybody involved, especially managers. It is only then that control will be effective in the organisation.

**8. Corrective:**

A proper control system should not only detect deviations from plans, but must also show the way to corrective action so that further loss or damage is not caused to the organisation.

Once the pre-requisites of effective control are in place it becomes important to understand what should be the characteristics of control.

#### **1.4. Characteristics of Control**

Control has some basic characteristics. These are:

**1.4.1 End Function:** Control, being an end function of the management process is not the beginning, but on follow up to the other functions of management. Control is said to be the end function since it judges the performance of different factors engaged in the attainment of the objective

of the enterprise.

**1.4.2. Continuous Process:** Just like planning, controlling process is also continuous. Control should also be prompt in dealing with deviations. A manager should monitor the performance of his Staff continuously and assure himself that they are on the right track.

**1.4.3. Flexible activity:** Controlling process cannot be rigid. It has to be flexible and is required to adjust according to needs and situations arising from time to time. As plans and objectives may change according to the needs of the situation, control must also adjust itself to them.

**1.4.4. Forward Looking:** Control is related to the future though it lives in the present. It is the present over which control is exercised with a view to guard against future Loss & Wastage which may arise due to deviations from plans, Policies, Programs and schedules, etc.

**1.4.5. All level Exercise:** Controlling, like all other managerial functions is exercised at all levels of management. Its nature and degree may change according to the level but it is to be performed throughout the organisation. It is a non interfering process. It does not curtail the right of an individual or of a group.

**1.4.6. Employee Behavior:** Control guides and integrates employee's behavior towards attaining organizational goals. It guides employees to work according to predetermined standards, motivating and instructing them in this way. Supervising will help in integrating their behavior towards attaining the goals of the enterprise.

**1.4.7. Anticipating probable changes:** Changes can be anticipated via information collected. Reports and information from people working on different jobs will enable management to anticipate that :

- > It is economically realistic.
- > It is accurate - timely - objective and comprehensive.
- > It focuses on strategic control points.

## **1.5. Need of Control**

At this specific point, it should be agreed that control is vital to an organization. But in what ways? The following points will make this clearer:

### **1.5.1. Proper Action:**

Control gives the correct picture of the nature of corrective action to be taken. Taking corrective action may lead to modification of planning, organizing and directing. If anything is wrong with planning, organizing and directing, it is brought to light through the process of control.

### **1.5.2. Decision Making:**

Control is basic to decision making. According to W.T. Lerome, control is needed both to simplify the making of subsequent decisions and to ensure the realization of the objectives implicit in the original long range policy decisions. The process of control is complete only when corrective action is taken.

### **1.5.3. Consistency:**

Control enables top management to get the feedback information which helps them to ensure that the decision taken at the lower levels are consistent with the policies and the interest of the enterprise. The modern trend towards decentralization: calls for a systematic attempt for controlling.

### **1.5.4. Co-ordination:**

Control facilitates co-ordination by keeping the routine activities and efforts within their fixed boundaries established by pre-determined goals and objectives and provide guidance to each member of the organization to move towards common goals through co-ordinated directions.

#### **1.5.5. Positive Impact:**

The existence of a control system has a positive impact on the behavior of employees who tend to be more cautious as their performance is observed by the manager or is being compared with pre-determined goals. It keeps subordinates under check and brings discipline among them. Employees, knowing that they are being observed will try to work more efficiently and according to standards.

#### **1.5.6. Detection of Weaknesses:**

Control highlights omissions, (if any) and makes it possible to take corrective measure. Control keeps a check on other functions for ensuring successful management. It is the control function of management that reveals and brings necessary feedback for indicating managerial weaknesses and determination of remedial actions. It helps management in knowing which department needs more attention.

#### **1.5.7. Proper Implementation of Plans:**

Control through the feedback information will enable management for the proper implementation of plans. The shortcomings of planning as well as other functions of management such as Organizing, Staffing, Directing, Communicating and coordinating, will help in achieving this. Plans are related to the future and the controlling process will provide adequate information to management so that these plans are implemented in a proper manner or way.

### **1.6. Process of Control**

Whatever the level at which control is exercised, the process of control is fundamental and involves the following steps:

#### **1.6.1. Establishment of Standards:**

Control logically begins with, setting up of standards. These provide the established criteria of desired performances for evaluating both individual and organizational performance. The criteria of desired performance vary according to the nature of business activities. Whatever standards may be set and used, they should be appropriate to the purpose attainable, flexible precise and concerned with results rather than with procedures. Standards should also not be vague and should be understandable by all the persons concerned.

#### **1.6.2. Measurement of Actual Performance:**

This is done for the purpose of evaluation. Measurement of actual performance should be done as accurately as possible. Technical kind of work can be measured easily but difficulties arise in case where less technical kind of work is concerned. Managers and supervisors should adopt suitable methods of performance appraisal.

#### **1.6.3. Comparison Step:**

After the standards are set and performance is accurately measured, the next step is comparing them to see any variation between the two. When actual performance is equal to expected performance there is not much need for controlling action. This is an ideal situation, which rarely exists. In case of difference between actual performance and the desired performance, the manager should use his judgment to determine the significance of this difference.

#### **1.6.4. Corrective Action:**

Control process would be incomplete if corrective action is not taken. As Connor observes "An effective control system should produce more than a red flag; it must also contain procedures to determine means of correcting



the deviations.' Corrective action calls for the removal or adjustment of causative factors, with a view to put in the performance on a proper track. Also, corrections should be undertaken promptly as soon as deviations are detected to avoid accumulated loss. It should also be noted that not all deviations need correction. Such action may be either remedial (which is taken after the wrong has been done) or preventive (which is taken before). It is obvious that the latter is preferred to the former. Those having the authority over the actual performance put the corrective action into effect. As such, the control process ends with such proper corrective action.

**SELF ASSESSMENT QUESTIONS:**

1. What is the meaning of Control?
2. What are the elements of effective control?
3. What are the benefits of control system?
4. Explain the process of Control.