

Management Control

Control is an important function of management. It is the process that measures current performance and guides it towards some predetermined objectives. It involves setting up standards of individual and organizational performance, checking actual performance against these standards to make sure that the objectives are being achieved as originally anticipated in organization's plans. "In an undertaking, control consists in verifying whether everything occurs in conformity with the plan adopted, the instructions issued and the principles established. It has for object to point out weaknesses and errors in order to rectify them and prevent recurrence. It operates on everything — things, people and action".

Management control describes the means by which the actions of individuals or groups within an organization are constrained to perform certain actions while avoiding other actions in an effort to achieve organizational goals. Management control falls into two broad categories—regulative and normative controls—but within these categories are several types.

Controlling might be defined as that managerial function which seeks to ensure an absolute conformity (i.e. agreement) of actual performance of organizational personnel with the planned standards to facilitate the most effective and efficient attainment of the enterprise objectives.

Nature of Management Control

1. Managerial Function

Control is one of the managerial functions. It is not only the function of chief executive but is the duty of every manager. A manager is responsible for whatever work is assigned to him. He will control the performance of his subordinates for ensuring the accomplishment of goals. Control is mainly the function of line organization but manager may ask for data from staff personnel.

2. Controlling is both backward looking as well forward looking function

Controlling is backward looking function as managers compare the planned performance with actual performance and to measure the actual performance they have to look back to the performance already done. Controlling is forward looking also because it does not end only by comparing past performance with future but it also suggest measures to remove the reasons for failure of plans. This function makes sure that plans and performance match in future.

3. Controlling is all pervasive function

Controlling is not the task of top level managers but managers working at all the levels. i.e., top, middle and operational level perform controlling function.

4. Continuous Activity

Control is continuous or regular process. It is carried on till the organization is surviving. Management has to be continuously vigilant to ensure that the enterprise is following a right path. Management must continuously review and improve upon the actual performance in order to achieve the predetermined objectives.

5. Control is related to Planning

Planning is the first function of management while control is the last. Control cannot be exercised without planning. First the objectives are set and then efforts are made to see whether these are accomplished or not. Whenever there is a laxity in performance or things are not happening as per the plans then corrective measures are taken immediately. So planning provides a base for controlling.

6. Action-oriented:

The essence of control is the corrective action that brings plans and performance close to each other. The whole exercise of managerial process is taken to arrive at organizational objectives set by the planning process.

For this purpose, actions and further actions are necessary; each time there may be correction and change in the actions depending upon the information provided by control procedure.

7. Dynamic Process

Control is a dynamic process. It is flexible and not rigid. Control involves continuous review of standards of performance and results in corrective action which may lead to change in the performance of other functions of management. Since management is managing a business entity which keeps on changing, managerial control is also dynamic. Management will be failing in its duty if its approach is not dynamic.

Purpose of Management Control

1. Coordination

The size of modern business organizations is quite large. A large amount of capital and large number of people are employed in them. This complicates the problem of control as there are many units producing and distributing different products. In order to coordinate their activities, an efficient system of control is necessary.

2. Corrective Action

An efficient system of control provides the basis for future action. Taking corrective action may lead to modification of planning, organizing and directing. Control will also check the mistakes being repeated in future.

3. Decision-Making

Control is basic to decision-making. The process of control is complete when corrective actions are taken. This involves making a right decision as to what type of follow up action is to be taken. This will lead to accomplishment of organizational objectives. According to W.T. Jerome, "Control is needed to both to simplify the making of subsequent decisions and to ensure the realization of the objectives implicit in the original long-range policy decisions."

4. Better Planning

Control is the only means to ensure that the plans are being implemented in the real sense. It points out the shortcomings of planning by comparing the actual performance with the planned standards and suggests steps to improve planning.

5. Decentralization of Authority

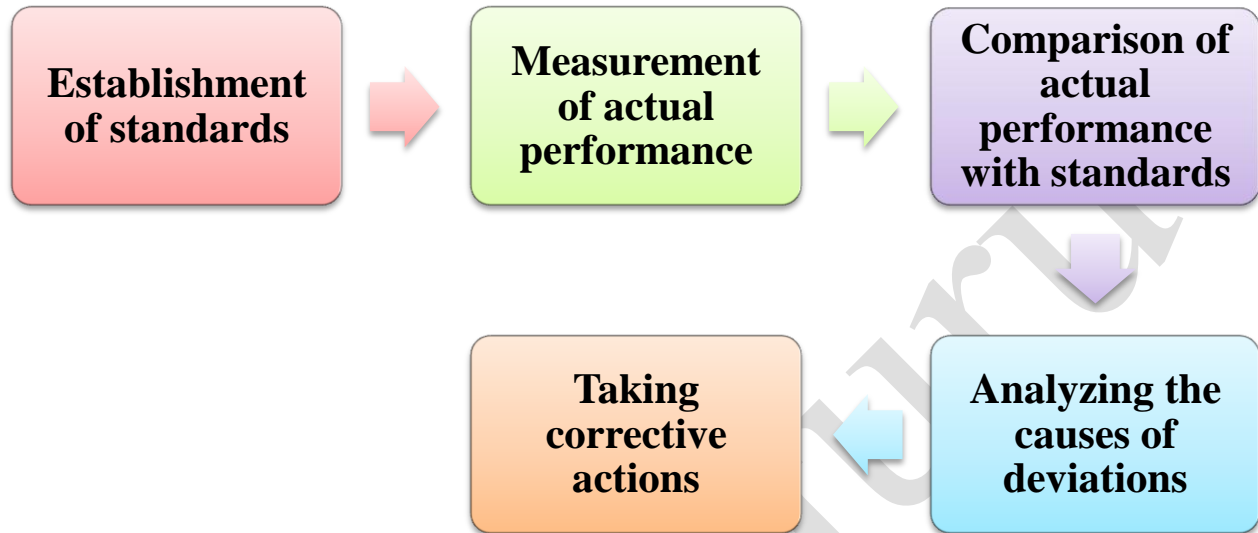
The modern trend of business enterprises towards decentralization calls for a systematic attempt for controlling. Under decentralization, the authority of decision-making is dispersed throughout the organization. Management must keep control in its hands to know whether the authority is being properly delegated. Without adequate controls, decentralization cannot succeed.

6. Effective Supervision

Control facilitates effective supervision by pointing out significant deviations. It keeps the subordinates under check and brings discipline among them. While control cures habitual dishonesty in all cases, management is irresponsible if it does not make a reasonable effort to provide order and discipline among its employees through effective control processes. A good system of control detects the weak points very quickly. This enables the expansion of span of control at all levels in the organization.

Process of Controlling

The essential elements of any control system are:



1. Establishment of standards

Within an organization's overall strategic plan, managers define goals for organizational departments in specific, precise, operational terms that include standards of performance to compare with organizational activities. However, for some of the activities the standards cannot be specific and precise.

Standards, against which actual performance will be compared, may be derived from past experience, statistical methods and benchmarking (based upon best industry practices). As far as possible, the standards are developed bilaterally rather than top management deciding unilaterally, keeping in view the organization's goals.

Standards may be tangible (clear, concrete, specific, and generally measurable) – numerical standards, monetary, physical, and time standards; and intangible (relating to human characteristics) – desirable attitudes, high morale, ethics, and cooperation.

2. Measurement of actual performance

Most organizations prepare formal reports of performance measurements both quantitative and qualitative (where quantification is not possible) that the managers review regularly. These measurements should be related to the standards set in the first step of the control process.

For example, if sales growth is a target, the organization should have a means of gathering and reporting sales data. Data can be collected through personal observation (through management by walking around the place where things are happening), statistical reports (made possible by computers), oral reporting (through conferencing, one-to-one meeting, or telephone calls), written reporting (comprehensive and concise, accounting information – normally a combination of all. To be of use, the information flow should be regular and timely.

3. Comparison of actual performance with standards

After measuring the performance the manager compares the actual performance with the planned performance and standard. If there is match in both then the controlling function ends there only. But if there is mismatch or deviation then the manager tries to find out the extent of deviation. If the deviation is minor then it should be ignored. But if the deviation is major, then timely actions must be taken.

4. Analyzing the causes of deviations

All deviations need not be brought to the notice of top management. The deviations should be brought to the notice of top management when they are too high. A range of deviations should be established beyond which the attention of top management is warranted. Only such cases should be reported up which pinpoint exceptional situations. This is what is known as 'management by exception'. According to Dale, the control reports should meet three criteria. Firstly, control reports must produce figures that are truly comparable from one period to another and from one section of the business to another. Secondly, they must be coordinated so that they not only portray the results in different sections of the business, but also make plain the reasons why the business is or is not doing as well as could be expected. Finally, they must be presented in such form that the manager can get the bird's eye view.

5. Taking corrective actions

The final step in the control process is taking corrective action so that deviations may not occur again and the objectives of the organization are achieved. This will involve taking certain, reassignment or clarification of duties. It may also necessitate reforming the process of selection and training of workers. Thus, control function may require change in all other managerial functions. If the standards are found to be defective, they will be set up again in the light of observations. Joseph Massie has pointed out that a manager may commit two types of mistakes at this stage: (1) taking action when no action is needed, and (2) failing to take action when some corrective action is needed. A good control system should provide some basis for helping the manager estimate the risks of making either of these types of errors. Of course, the final test of a control system is whether correct action is taken at the correct time.