Chapter 8: Controlling

Exercises — Exercises

Q1 State the meaning of controlling.

Controlling means ensuring that activities in an organisation are performed as per the plans. It involves monitoring progress, measuring performance, comparing it with standards, and taking corrective action to ensure that organisational goals are achieved efficiently and effectively.

Q2 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 is Management by Exception (also called control by exception), which states that managers should focus attention only on significant deviations rather than trying to control every activity. A control system loses its effectiveness when standards cannot be set in quantitative terms — for example, when measuring employee morale or job satisfaction, making comparison with standards difficult.

Q3 State any one situation in which an organisation's control system loses its effectiveness.

A control system loses its effectiveness when standards cannot be defined in quantitative terms. In areas like employee morale, job satisfaction, or human behaviour, performance is hard to measure objectively, making comparison with standards — and therefore the entire control process — difficult.

Q4 Give any two standards that can be used by a company to evaluate the performance of its Finance & Accounting department.

Two standards for evaluating Finance & Accounting performance: (1) Capital expenditures — the budgeted vs. actual amount spent on capital investments; (2) Liquidity — the current ratio or quick ratio target set for maintaining adequate short-term solvency.

Q5 Which term is used to indicate the difference between standard performance and actual performance?

The difference between standard performance and actual performance is called Deviation.

Q6 'Planning is looking ahead and controlling is looking back.' Comment.

The statement is only partially correct. Plans are prepared for the future based on forecasts, so planning is indeed a forward-looking function. Controlling, on the other hand, involves a postmortem of past activities to find deviations from standards, making it backward-looking in that sense. However, planning is guided by past experience, and the corrective action taken through control aims to improve future performance. Thus, both planning and controlling are simultaneously backward-looking and forward-looking functions, and they are inseparable twins of management — planning without controlling is meaningless, and controlling without planning has no basis.

Q7 'An effort to control everything may end up in controlling nothing.' Explain.

This statement refers to the principle of Management by Exception. It is neither economical nor practical to keep a check on each and every activity in a large organisation. If a manager tries to control everything, attention gets spread thin and no area receives adequate focus. Instead, management should identify Key Result Areas (KRAs) — the critical points whose failure would affect the entire organisation — and concentrate control efforts there. Only significant deviations beyond the permissible limit need to be brought to managerial attention. This saves managerial time, focuses effort on important problems, leaves routine matters to subordinates, and ensures timely corrective action where it truly matters.

Q8 Explain how management audit serves as an effective technique of controlling.

Management audit is a systematic and comprehensive appraisal of the overall performance and effectiveness of a management team. It involves a thorough review of the entire management process — including planning, organising, staffing, directing, and controlling — to assess how efficiently and effectively management is functioning. As a control technique, management audit helps identify weaknesses and gaps in managerial performance before they grow into serious problems. It ensures that management functions are being carried out in accordance with organisational objectives, promotes accountability, and provides recommendations for improvement. Being a modern technique, it serves as an independent evaluation mechanism that strengthens the overall control system of an organisation.

Q9 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. (Hint: Management by exception).

Ms Vasundhara should apply the principle of Management by Exception. This principle states that managers should focus attention only on significant deviations from standards, not on every minor shortfall. Mr. Bhanu Prasad fell short by 10 units over two days — a relatively minor and possibly temporary deviation. Terminating his services for such a small deviation would be an overreaction and poor application of control. Instead, Ms Vasundhara should assess whether this deviation is within an acceptable range, identify the cause (such as fatigue, machine issues, or personal problems), and take proportionate corrective action such as counselling or temporary reassignment. Drastic action should be reserved for large, persistent, or critical deviations.

Q10 Explain the various steps involved in the process of control.

The controlling process involves five steps: (1) Setting Performance Standards — Standards are the criteria against which actual performance is measured. They can be set in quantitative terms (cost, revenue, units produced) or qualitative terms (goodwill, motivation). They serve as benchmarks and should be flexible enough to be revised as conditions change. (2) Measurement of Actual Performance — Actual performance is measured using techniques such as personal observation, sample checking, and performance reports. Measurement should be objective, reliable, and preferably in the same units as the standards to enable easy comparison. (3) Comparing Actual Performance with Standards — This step reveals deviations between actual and desired results. The comparison is easier when standards are quantitative. (4) Analysing Deviations — Not all deviations need action; an acceptable range is identified. Critical Point Control focuses on Key Result Areas, while Management by Exception ensures only significant deviations are escalated. Causes of deviations (e.g., unrealistic standards, inadequate resources, environmental factors) must be identified before corrective action. (5) Taking Corrective Action — When deviations exceed acceptable limits, immediate managerial action is required. This may involve employee training, reassigning resources, or revising standards if the deviation cannot be corrected otherwise.

Q11 Explain the techniques of managerial control.

Techniques of managerial control are classified into traditional and modern techniques. Traditional Techniques: (1) Personal Observation — Direct, firsthand observation of employees at work; the most reliable but time-consuming method. (2) Statistical Reports — Analysis of data presented in graphs, charts, and tables to identify trends and deviations. (3) Breakeven Analysis — Determines the point at which total revenue equals total cost (no profit, no loss); helps in assessing the relationship between costs, volume, and profits. (4) Budgetary Control — Performance is measured against budgeted figures for sales, costs, production, etc., and corrective action is taken for significant variances. Modern Techniques: (1) Return on Investment (ROI) — Measures the profitability of capital invested; a higher ROI indicates better performance. (2) Ratio Analysis — Financial ratios (liquidity, solvency, profitability, turnover) are used to evaluate departmental and organisational performance. (3) Responsibility Accounting — A system where each unit or manager is held accountable for the costs and revenues under their control. (4) Management Audit — A systematic appraisal of the overall performance and effectiveness of management, identifying gaps and recommending improvements. (5) PERT and CPM — Network analysis techniques used for planning and controlling complex projects by identifying critical activities and scheduling them to minimise delays. (6) Management Information System (MIS) — An integrated system that provides timely and accurate information to managers at all levels, enabling informed decision-making and effective control.

Q12 Explain the importance of controlling in an organisation. What are the problems faced by the organisation in implementing an effective control system?

Importance of Controlling: (1) Accomplishing Organisational Goals — Controlling measures progress towards goals, brings deviations to light, and guides corrective action so targets are met. (2) Judging Accuracy of Standards — It enables management to verify whether the standards set are realistic and objective, and helps in revising them in response to changing conditions. (3) Making Efficient Use of Resources — By checking deviations, control reduces wastage and spoilage, ensuring resources are used most efficiently. (4) Improving Employee Motivation — When employees know in advance what is expected of them and on what basis they will be appraised, it motivates them to perform better. (5) Ensuring Order and Discipline — A good control system minimises dishonest behaviour by keeping a close watch on activities. (6) Facilitating Coordination in Action — Pre-determined standards are well-coordinated across departments, ensuring all efforts move in the same direction towards organisational objectives. Problems in Implementing Effective Control: (1) Difficulty in Setting Quantitative Standards — For areas like employee morale or job satisfaction, standards cannot be easily expressed in numbers, reducing control effectiveness. (2) Little Control over External Factors — Organisations cannot control government policies, technological changes, or competition. (3) Resistance from Employees — Employees often resist control, viewing it as a restriction on their freedom or as a sign of distrust. (4) Costly Affair — Installing and operating a control system involves significant expenditure, time, and effort, which small organisations may be unable to justify.

Q13 Discuss the relationship between planning and controlling.

Planning and controlling are called the inseparable twins of management. Their relationship is deep and mutually reinforcing: Planning provides the basis for controlling — standards of performance that control measures actual outcomes against are set during the planning stage. Without a plan, there is nothing to control against. Controlling makes planning meaningful — plans without control often go astray. Controlling monitors whether plans are being implemented and whether targets are being achieved. Planning is a prerequisite for controlling — it is futile to attempt controlling without predetermined standards. The two functions reinforce each other: (1) Planning based on facts makes controlling easier and more effective; (2) Controlling improves future planning by providing information derived from past experience. The statement 'planning is looking ahead and controlling is looking back' is only partially correct: plans are forward-looking (based on forecasts), while control involves a postmortem of past activities. However, both functions have backward and forward dimensions — planning draws on past experience and controlling feeds lessons back into the next planning cycle. Together, they form a continuous management cycle.

Q14 A company 'M' limited is manufacturing mobile phones both for domestic Indian market as well as for export. It had 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 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.

(a) Benefits of a good control system for 'M' Limited: A good control system will help the company accomplish its sales and customer satisfaction goals by measuring progress and flagging deviations early. It will help judge whether current standards (sales targets, customer satisfaction benchmarks) are realistic in the new competitive environment, and revise them if needed. It will ensure efficient use of resources by reducing wastage. It will improve employee motivation by setting clear performance expectations. It will facilitate better coordination across sales, production, and after-sales departments toward common targets. (b) Relating Planning with Control: 'M' Limited should begin by setting clear, measurable targets during planning — sales volume, market share, customer satisfaction scores. These become the standards for control. As operations proceed, actual performance against these standards should be continuously monitored. Where deviations occur (e.g., sales falling short due to competitor pricing), the control function triggers corrective action (price revision, product upgrade). Lessons from the current control cycle — why targets were missed, what competitors are doing — should feed back into the next planning round, ensuring plans become more realistic and actionable. (c) Steps in the Control Process for 'M' Limited: (1) Set Performance Standards — define specific, measurable targets for sales, customer satisfaction, quality, and cost. (2) Measure Actual Performance — collect data on actual sales achieved, customer complaints, market share using reports and observation. (3) Compare Actual with Standards — identify gaps (e.g., sales below target, satisfaction scores below benchmark). (4) Analyse Deviations — investigate causes: pricing uncompetitive, technology outdated, distribution inadequate. (5) Take Corrective Action — revamp product features, revise pricing, improve after-sales service, and update future plans accordingly.

Q15 Mr Shantanu is a 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. He also suggested him to keep a 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 four points of importance of Controlling.

(a) Two features of Controlling highlighted in the situation: (1) Continuous Process — Mr Shantanu instructs a 'constant and continuous check' on all activities. Controlling is not a one-time exercise; it is an ongoing process that runs throughout the management cycle to ensure activities remain aligned with plans. (2) Pervasive Function — Mr Shantanu asks the production manager to track 'all employees in the organisation.' Controlling is required at all levels of management — top, middle, and lower — and across all departments, making it a pervasive function. (b) Four points of importance of Controlling: (1) Accomplishing Organisational Goals — Controlling measures progress towards goals and initiates corrective action when targets are not being met, keeping the organisation on track. (2) Making Efficient Use of Resources — Control reduces wastage and spoilage by ensuring each activity is performed in accordance with predetermined standards, leading to optimal resource utilisation. (3) Improving Employee Motivation — When employees know in advance what is expected of them and how they will be assessed, it motivates them to give their best performance. (4) Ensuring Order and Discipline — Controlling creates an atmosphere of order and discipline by keeping a close check on activities, minimising dishonest behaviour, and ensuring work proceeds as planned.