c) **Maintaining Competitiveness:** In order to maintain competitiveness over a long period of time, a business is to apply effective control system. Through effective control system, management can utilise the valuable resources of the business for the accomplishment of its organisational goals.

d) **Attainment of goals :**By the help of control system a business can guide its activities towards the realisation of the pre-determined goals.

e) **Success of Planning :**Through control, organisational activities are checked and examined to ensure that everything is going on according to planning. That is why, Terry and Franklin have rightly said that the failure of controlling means sooner or later the failure of planning and success of planning means the success of controlling.

f) **Help in Decision-making :** By the help of control system a manager can find out the difference between actual performance and standard performance. Thereafter, the manager can easily decide how to correct the deviations.

g) **Effective delegation and decentralisation :** In order to make the delegation and decentralisation effective, control system is very much essential. Because, without proper control system, no delegation and decentralisation of authority can produce desired results.

h) **Proper Direction :** Effective direction is always possible through effective control. The managers can observe that activities of a business are effectively directed towards the pre-determined objectives through systematic control system.

i) **Promotes Coordination :**The control system can guide the activities of an organisation towards the same direction as desired by the management. Thereby managers can ensure unity of direction and uniformity of actions and behaviour. This also helps in the development of the spirit of cooperation and coordination among the employees and various departments.

j) **Timely performance :** Time is an important factor in managerial activity. Management can perform the organisational activities in right time by the control system. Pre-decided work schedules, programmes, time tables are the different controlling techniques which ensure timely performance of organisational activities.

k) **Detection and correction of mistakes :** The control system finds out the deviation between standard and actual performance. Moreover, if any deviation is found then the control system detects the cause of the same and also provides corrective measures. Thus, through a control system all possible mistakes and irregularities can be detected and corrected.

l) **Promotes economy :** An effective control system can reduce unnecessary cost and wastages of production. Thereby, management can reduce the per unit cost of production and increase the profitability. After all, an organisation can effectively and efficiently use its resources by the help of control.

m) **Organisational Stability :** Organisational stability is possible, if the management can properly use its control system. Different control techniques such as plans, policies, rules, budgets, fixation of standard can contribute to the organisational stability. All of these techniques of control can provide a strong foundation to the organisation. By an effective control system management can create a good work culture and build good image and goodwill of the organisation in the society.



**CHECK YOUR PROGRESS**

**Q 1:** Define Control.

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**Q.2.** State two importance of control.

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## 5.4 STEPS IN CONTROL PROCESS

Control is a continuous or ongoing dynamic process. Control process involves the following steps:

**1) Establishment of Standards:** Establishment of standards is the first step of control process. Standard is the criteria of performance or yardstick

for judging results. Standards are level of activities established by the management for evaluating performance. Standard may be in several forms. Standard should be defined in quantitative terms to make control more specific.

**Different forms of standard are:**

a. **Productivity Standards:** Productivity or quantity standards are expressed in numerical terms, as the expected number of items produced per man, per hour or per given activity. These goals are the key to operational efficiency.
b. **Time Standards:** The goal will be set on the basis of the time lapse in performing a particular task.
c. **Cost Standards:** These standards indicate the financial expenditure involved per unit of activity. Budgets are established to reflect these costs and they provide monetary check points for comparing actual costs with budgeted costs.
d. **Quality Standards:** These standards express the levels of quality expected of a product or service.
e. **Return on investment Standards:** Return on investment is a comprehensive and a useful standard as it involves all facets of the business such as turnover, sales, working capital, invested capital, inventory levels at a given time and so on.

Standard should be fixed in all the key areas of business. Moreover, standards should always be flexible and capable of being adapted to changing environment.

**2) Measurement of Performance:** The next step in the control process is the measurement of actual performance. Monitoring and measuring is a continuous activity and involves collecting relevant data that represents the actual performance of the activity, so that a comparison can be made between what has been accomplished and what was intended to be accomplished. Personal observation, samples, reports, accounting statement etc are the various methods of measuring actual performance. Depending on various situations, the method of measurement may be quantitative, or qualitative or a combination of both. Managers should carefully

select the methods of measurement and time gap within which performance will be measured. The measurement of performance should always be clear, complete, precise and objective.

**3) Comparison between actual performance and standard:** The third step in the control process is the comparison of actual performance with the standards. In this step, the managers not only find the deviation between the actual and the standard performance, but also identify the cause of this deviation. The managers should distinguish between noncritical and critical deviation. It is important to mention that focusing on critical deviations is known as control by exception. The management can provide information relating to work performance through relevant data, charts, graph and written reports.

**4) Correction of Deviation:** This is the last step in the control process. Management should take immediate corrective measure after determining the causes of deviations. In order to improve performance managers can provide training, revise compensation plan, redesign job; change the strategy, changing the organisational structure etc.

## 5.5 TYPES OF CONTROL

Depending on the time at which control is applied, controls can be categorized into of three types:

1. **Feedback control:** It is the process of gathering information about a completed activity, evaluating that information and taking steps to improve similar activities in future. Feedback control enables managers to use information on past performance.
2. **Concurrent control:** Concurrent control techniques immediately consider a problem and analyse it to take necessary and corrective steps before any major damage is done.
3. **Predictive or feedforward control:** Here the control system anticipates problems that the management may encounter in future. Cash budget is an example of this type where the finance manager is in a position to estimate the next year's flow of cash.

## 5.6 DIMENSIONS OF CONTROL

In a large multi- product, multi plant and multi location organization, it is not possible to check everything and initiate timely, remedial steps whenever things go off the track. Managers therefore, focus attention on key or critical areas which have a significant bearing on the performance of various departments in an organization. The following ways have been found to relevant in this regards.

**Critical or strategic point control:** For control to be effective, it should focus on key result areas which are critical to the success of an enterprise. So, management while reviewing standards must pick some strategic points that reflect the entire organization.

**Management by exception:** Management by exception is an important principle of organizational control. According to this principle, the managers should give attention only on a significant deviation from standards of performance. By this principle, manager can separate important and unimportant deviation. As per this principle, a managers should send only information of important deviation to the top management. The managers should concentrate their effort only on important matters. They should not observe each and every matter of the organization. If managers can apply this principle, they can handle their control system more efficiently. This principle says that subordinates should perform all routine matters of the organization and thereby the subordinates should leave the manager free to deal with non-routine or exceptional organizational issues. As for example, the manager establishes a quality control standard, under which 2% defective production can be allowed. So, according to the principles of management by exception, managers should inform the top management, if the defective is found more than 2% and they should not inform the management about any defective production up to or less than 2%.

**Benefits of Management by Exception:** From the use of the principles of management by exception, the following benefits can be enjoyed :

- It can save the time of top level management.
- It can increase the concentration of executive efforts on major problems.

- It provides better facilities in systematic delegation of authority.
- It makes possible the use of the knowledge of the managers and the important data and information for the productive purpose.
- It helps the managers in the identification of critical problems.
- It provides both qualitative and quantitative yardsticks to judge situation and people.
- It improves the quality of communication among various segments of an organization.
- It plays vital role in the control system of big organizations.
- It helps in the development of skill of the lower level managers.
- It minimizes the frequency of decision making.

## 5.7 RESISTANCE TO CONTROL

In spite of the benefits that control provides, some employees resist control, especially if they feel over controlled, if they think control is inappropriately focused or rewards inefficiency, or if they are uncomfortable with accountability.

a. **Over control:** When organizations try to control too many things, employees may feel over controlled if the controls directly affect their behavior. When employees think that attempts to limit their behavior are unreasonable, trouble can occur.

b. **Inappropriate focus:** If the control system is too narrow or focuses too much on quantifiable variables, leaving no room for analysis or interpretation, it may be judged as having an inappropriate focus. When this happens, employees resist the intent of the control system by focusing their efforts only at the performance indicators being used.

c. **Rewards for inefficiency:** If control systems knowingly or unknowingly reward inefficient activity, employees likely will resist by behaving in ways that run counter to the organization's intent.

d. **Too much accountability:** Effective control lets managers determine whether employees are doing their jobs. People who do not want to be answerable for their mistakes or who do not want to work as hard as their boss might like them to work are likely to resist control.

**Overcoming Resistance to Control:** The best way to overcome resistance to control is to design effective controls initially. Two other ways to overcome resistance are encouraging participation and developing verification procedures.

**a. Encouraging employee participation:** When employees are involved with planning and implementing a control system, they are less likely to resist it.

**b. Developing verification procedures:** The accuracy of performance indicators can be verified by having multiple standards and information systems. These checks and balances can be important verification procedures.



**CHECK YOUR PROGRESS**

**Q.3.** State any two types of control.

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**Q.4.** What is resistance to control?

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## 5.8 TECHNIQUES OF MANAGERIAL CONTROL

Managerial control is a systematic effort to set performance standard along with planning targets. There are various techniques of managerial control. All techniques can be classified broadly into two categories. Such as :

A. Budgetary control techniques

B. Non-budgetary control techniques

### 5.7.1 Budgetary Control Techniques

A budget is a recorded plan of action expressed in quantitative terms. Budgetary control is derived from the concept and use of budgets. According to George R. Terry, “Budgetary control is a process of comparing the actual results with the corresponding budget”.

There are generally four steps of modern system of budgetary control. These are mentioned below:-

- **Budget Policy Guidelines:** In an organisation, line managers have to base their expectations on various assumptions in time of preparing budgets. These assumptions are related to economy, political trends, government policies, competitors' actions, strengths of organisation, basic managerial policies etc. The top management should prepare a common set of budget policy guidelines to be followed by all managers of middle and lower level. Budget Policy Guidelines also lay down the fundamental targets necessary for continuous progress of the business.
- **Preparation of Budgets:** According to nature, activities and size of organisation, different types of budget are prepared. Different departmental heads have to prepare their own budget as per guidelines given by the top management. Thereafter the budget committee would discuss all the budgets and observe that budgets are prepared within the safety margin.
- **Reporting of variance:** Cost variance is the difference between a budgeted cost and an actual cost. There are mainly three cost variances. such as material cost variance, labour cost variance and overhead cost variance. On the basis of variance analysis, the managers can take immediate corrective action. The managing director can know the overall position of the organisation from the report of variance. Generally the performance is measured against the budget and the variance is calculated by the budget department under the control of budget officer.
- **Review and Follow-up:** It is an important step in budgetary control process. Generally, the budget committee meets periodically to review the performance of various departments. If this review and follow-up action is neglected, then no system of budgetary control becomes effective.

**Objectives of budgetary control: -** The main objectives of budgetary control are as follow –

- **Ensure planning:** The main objectives of budgetary control are to ensure planning through different budgets.
- **Coordinate the activities:** Another objective of budgetary control is to coordinate the different activities of different departments.
- **Operation of cost center:** By the budgetary control, various cost centers and departments can operate with efficiency and economy.
- **Eliminate wastes:** As a result of budgetary control, an organisation can eliminate its wastes and unnecessary cost, which can ultimately increase profitability.
- **Capital expenditure:** Budgetary control can anticipate capital expenditure of an enterprise for the future.
- **Control:** Budgetary control can centralise the control system of an organisation.
- **Correction:** Different corrective measures can be adopted, which can minimise the deviations from the standards established earlier.
- **Responsibility:** By the budgetary control the responsibility of different employees and officers can be fixed.

**Advantages of Budgetary Control:**

The budgetary control has the following advantages -

- **Profitability:** By virtue of budgetary control, the profitability of an organisation can be maximised.
- **Increase Coordination:** Another advantage of budgetary control is to increase the coordination among different activities, departments, employees etc.
- **Achievement of goals:** Organisational goals can be achieved by the help of budegtary control.
- **Measuring performance:** Budgetary control can be used as a tool for measuring performance. Under budgetary

controldifferent targets are provided to different departments and thereafter actual performance is compared with the target. The deviations between the actual and the budgeted targets are reported to the top management.

- **Economy:** Under the budgetary control system, different expenditures are systematically alloted to different departments and activities. Thereby, wastage can be minimised and the resources of an orgnisation can be economically used.

**Limitation of Budgetary Control**

Inspite of many advantages, the budgetary control system suffers from the following limitations :

i) **Unknown and Unseen future :** Budgetary control system entirely depends upon the future. On the other hand,the future is unseen and unknown. So, the future may not come as per estimate in budget. The change in business environment, market, government policy may adversely affect the budgetary control of an organisation.

ii) **Revision :** Budgetary control is based on some assumption. So, if these assumption do not come true, then budgets should be revised. Frequent revision of budget can reduce its value and importance.

iii) **More efficient employees may be discouraged :** Generally the target are fixed under the budget to be achieved by the average quality employees. So, the more efficient employees may be discouraged under the budgetary control system.

iv) **Conflicts among departments :** Under budgetary control system, different amounts of finance are allotted to different departments. All departmental heads want to get the maximum allocation of funds, which is not practically possible. As a result, conflict may arise among these departments.

v) **Depends upon top management:** The support of the top management is essential for the success of budgetary control.