



# Introduction

This is a learning as well as an exam preparation video.

At the end of the video are practice assignments for you to attempt.

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# Chapter 8: Controlling

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## 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.

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## Meaning & Definition:

**“Managerial Control implies the measurement of accomplishment against the standard and the correction of deviations to assure attainment of objectives according to plans.”**

**-Koontz and O'Donnell.**

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## Importance Of Controlling:

- 1. Controlling helps in achieving organizational goals:** The controlling function tracks progress toward organizational objectives and flags any deviations so that remedial action can be taken.
- 2. Judging accuracy of standards:** An effective control system allows management to determine if the standards set are accurate or not by closely monitoring changes in the organization's environment.

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## Importance Of Controlling:

**3. Making efficient use of resources:** A manager can reduce resource waste by effectively utilizing resources through the controlling process.

**4. Improving employees' motivation:** An effective control system guarantees that staff are aware of what they are expected to do as well as the performance requirements.

As a result, it inspires and assists them in delivering superior results.

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## Importance Of Controlling:

**5. Ensuring order and discipline:** By maintaining a careful eye on the activities of its employees, the controlling function generates an atmosphere of order and discipline in the firm.

**6. Facilitating Coordination in action:** The last and most crucial role of controlling is to ensure that each department and employee is governed by predetermined standards and goals that are well-understood and coordinated. This guarantees that the organization's overall goals are met in a timely way.



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## Limitations Of Controlling:

- 1. Difficulty in setting quantitative standards: Control system loses some of its effectiveness when standards cannot be quantified.**
- 2. Little control on external factors: An organisation cannot control external factors such as government policies, technological changes, competition etc.**

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## Limitations Of Controlling:

3. **Resistance from employees:** Mostly employees resist controlling by managers.
4. **Costly affair:** Control is a costly process as it involves a lot of expenditure, time, and effort.

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## 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.
- 3. Continuous:** It is not an activity to be pursued in the end only; it has to be done on a continuous basis.

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## Nature of Controlling/ Features of Controlling:

**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.

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## Nature of Controlling/ Features of Controlling:

**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.

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## Relationship between Planning and Controlling:

Planning and controlling are inseparable twins of management. Once a plan becomes operational, controlling is necessary to monitor the progress and deviations. Thus, planning without controlling is meaningless. Other hand controlling is blind without planning, if the predetermined standards are not set in advance, there is nothing to control.

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## Relationship between Planning and Controlling:

**Planning is looking Ahead whereas Controlling is Looking Back.**

**Plans are prepared for future and are based on forecasts about future conditions on the contrary controlling is like a post-mortem of past activities to find out deviations from the standards.**

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## 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.**



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## Controlling Process:

### 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.

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## Controlling Process:

### 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.

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## Controlling Process:

### 4. Analysing Deviations:

The deviations from the standards are assessed and analysed to identify the causes of deviations.

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## Controlling Process:

### 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.

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## Techniques of Managerial Control:

Managerial control classified into two categories:

- Traditional Techniques.
- Modern Techniques.

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## Traditional Techniques:

1. **Traditional techniques** have been in use by managers since long ago. The following are traditional techniques of managerial control:
2. **Personal Observation:** It enables the manager to collect first-hand information, but it is very time consuming and cannot be used in all kinds of job.

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## Traditional Techniques:

**3. Statistical Reports:** Statistical analysis in the form of averages, percentages, ratios, correlation, etc., present useful information to the managers regarding performance of the organisation.

**4. Breakeven analysis:** is a technique to study the relationship between costs, volume, and profits.

**5. Budgetary Control:** is a technique of managerial control in which all activities are

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## Modern Techniques:

### 1. Return on Investment:

Return on Investment (ROI) is a technique which provides the basic yardstick for measuring whether invested capital has been used effectively for generating reasonable amount of return.

$$ROI = \frac{\text{Net income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total investments}}$$



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## Modern Techniques:

### 2. Ratio Analysis:

Ratio Analysis refers to analysis of financial statements by computation of various ratios.

- Liquidity Ratios
- Solvency Ratios
- Profitability Ratios
- Turnover Ratios

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## Modern Techniques:

### 3. Zero Based Budgeting:

It refers to a controlling technique where the budget is formed from scratch, and not referring to the previous budgets. Hence, in this budget is prepared as per the current conditions.

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## Modern Techniques:

### 4. Management Audit:

The term "management audit" refers to a systematic assessment of an organization's management performance.

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## Modern Techniques:

### 5. Management Information System:

A management information system (MIS) is a computer-based information system that provides data and support to help managers make better decisions. It's a crucial control strategy.

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**Managers benefit from MIS in the following ways:**

- **It makes information collection, management, and dissemination easier.**
- **It facilitates all levels of planning and control.**
- **It enhances the information quality.**
- **It ensures value for money.**
- **It helps to alleviate information overload.**

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