

# **PRINCIPLES OF MANAGEMENT**

**PAPER CODE- CC 1.2 Chg**

**UNIT-5**

**CONTROL**



## **TOPICS-**

❖ **CONCEPTS**

❖ **IMPORTANCE**

❖ **TOOLS OF CONTROL**

## **Definition:**

Control may be defined as the last function of management which involves setting plans or performance standards, measuring progress against plans or defined standards, identifying deviations, searching for the causes of deviations and finally taking corrective actions for achieving standards which ensures attainment of organizational goals.



## **Importance**

Decentralization of authority

Increasing Managerial Abilities

Using resources effectively

Facilitates Co-ordination

Structuring Human Behaviour

### **a) Decentralization of authority**

Since managers at every level of an organization have to exercise control, the controlling process leads to decentralization. This, in turn, enables middle and lower level managers to have some autonomy in making decisions. An organization that distributes authority at every level always works smoothly and efficiently.

#### **b) Increasing managerial abilities**

By enabling all managers to possess the autonomy to make decisions, controlling enhances their managerial abilities. With these skills, managers can further their organization's goals by adapting to diverse situations and problems. Furthermore, this also helps managers grow and develop at an individual level by giving them new experiences.

#### **c) Using resources effectively**

The most important function of controlling is to compare actual performances with expected results. This, in turn, helps managers understand where they are lacking and how they can improve their performances. Using this knowledge, managers can use all available resources optimally and prevent their wastage.

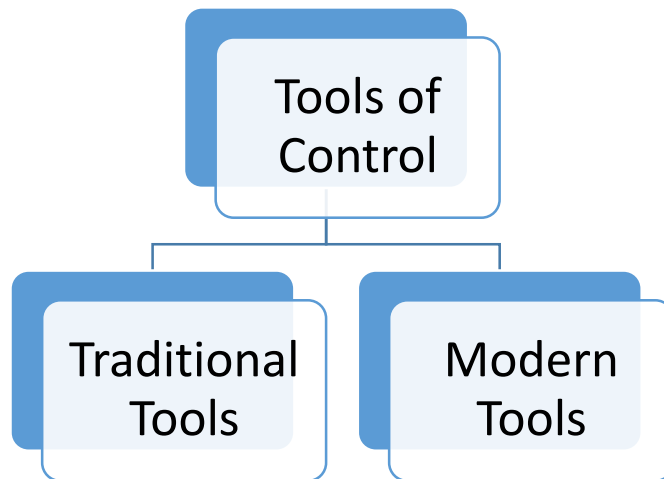
#### **d) Facilitating coordination**

In every business organization, managers and employees always have to coordinate and work with each other collectively. Controlling improves this coordination by basically demarcating all activities and efforts into fixed boundaries. It brings together all the resources of an organization and enables its personnel to work together with unified efforts.

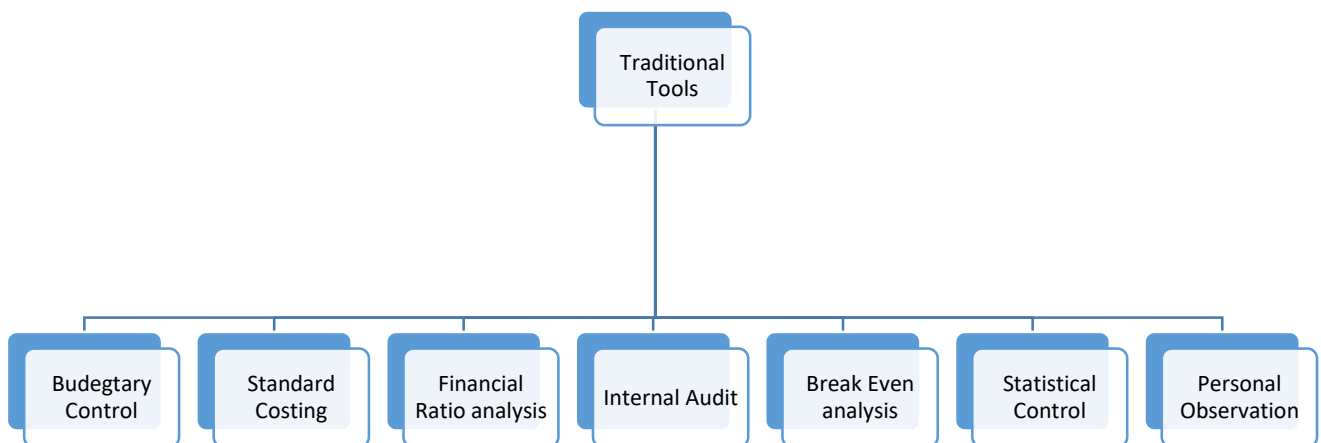
#### **e) Structuring human behaviour**

Since all organizations have to depend on humans for functioning, they need to regulate human behaviour of their employees. Controlling rationalizes this human behaviour and prevents employees from behaving arbitrarily and badly. It basically does so by providing for sanctions in case employees do not prescribe to expected standards of behaviour. For example, managers often take disciplinary action against employees who take unauthorized leaves.

## Tools of Control



## Traditional Tools



## **Budgetary Control**

Budgeting simply means showcasing plans and expected results using numerical information. As a corollary to this, budgetary control means controlling regular operations of an organization for executing budgets.

A budget basically helps in understanding and expressing expected results of projects and tasks in numerical form. For example, the amounts of sales, production output, machine hours, etc. can be seen in budgets.

There can be several types of budgets depending on the kind of data they aim to project. For example, a sale budget explains selling and distribution targets. Similarly, there can also be budgets for purchase, production, capital expenditure, cash, etc.

The main aim of budgetary control is to regulate the activity of an organization using budgeting. This process firstly requires managers to determine what objectives they wish to achieve from a particular activity. After that, they have to lay down the exact course of action that they will follow for weeks and months.

Next, they will translate these expected results into monetary and numerical terms, i.e. under a budget. Finally, managers will compare actual performances with their budgets and take corrective measures if necessary. This is exactly how the process of budgetary control works.

### **Standard Costing**

Standard costing is similar to budgeting in the way that it relies on numerical figures. The difference between the two, however, is that standard costing relies on standard and regular/recurring costs.

Under this technique, managers record their costs and expenses for every activity and compare them with standard costs. This controlling technique basically helps in realizing which activity is profitable and which one is not.

### **Financial Ratio Analysis**

Every business organization has to depict its financial performances using reports like balance sheets and profit & loss statements. Financial ratio analysis basically compares these financial reports to show the financial performance of a business in numerical terms.

Comparative studies of financial statements showcase standards like changes in assets, liabilities, capital, profits, etc. Financial ratio analysis also helps in understanding the liquidity and solvency status of a business.

### **Internal Audit**

Another popular traditional type of control technique is internal auditing. This process requires internal auditors to appraise themselves of the operations of an organization.

Generally, the scope of an internal audit is narrow and it relates to financial and accounting activities. In modern times, however, managers use it to regulate several other tasks.

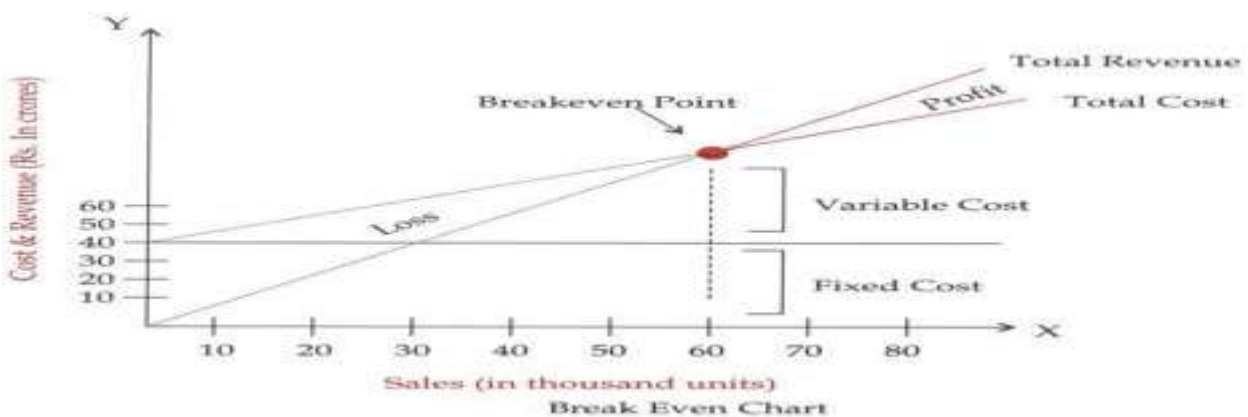
For example, it can also cover policies, procedures, methods, and management of an organization. Results of such audits can, consequently, help managers take corrective action for controlling.

### Break-Even Analysis

The technique used by managers to study the relationship between sales volume, costs and profit is known as Breakeven Analysis. This technique helps the managers in estimating profits at different levels of activities. The following figure shows breakeven chart of a firm.

The point at which the total revenue and total cost curves intersect is breakeven point. The figure shows that the firm will have the breakeven point at 60,000 units of output. At this point, there is neither profit nor loss. The firm starts earning profit beyond this point.

**Breakeven Point= Fixed Cost/ (Selling Price per unit- Variable cost per unit).**



Through breakeven analysis, a firm can keep a check on its variable cost and can also determine the level of activity at which it can earn its profit target.

### Statistical Control

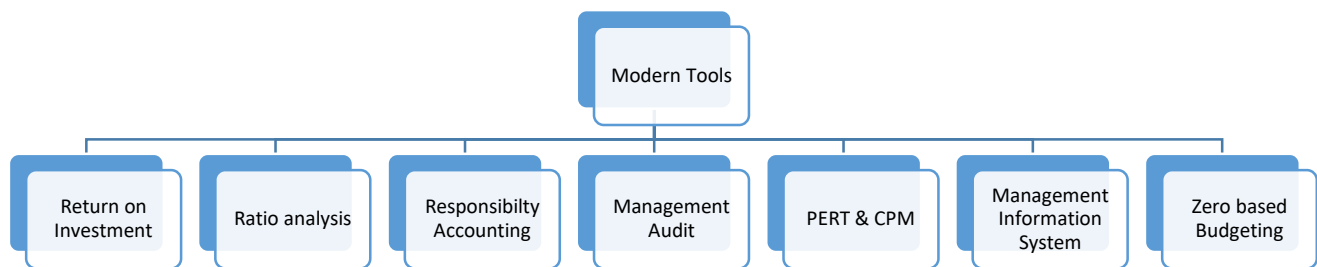
The use of statistical tools is a great way to understand an organization's tasks effectively and efficiently. They help in showing averages, percentages, and ratios using comprehensible graphs and charts.

Managers often use pie charts and graphs to depict their sales, production, profits, productivity, etc. Such tools have always been popular traditional control techniques.

**Personal Observation:**

This is the most traditional technique of control. It helps a manager to collect first-hand information about the performance of the employees. It also creates psychological pressure on the employees to improve their performance as they are aware that they are being observed personally by the manager. However, this technique is not to be effectively used in all kinds of jobs as it is very time consuming.

**Modern Techniques**



**(a) Return on Investment:**

Return on investment is very useful technique for determining whether the capital invested in the business has been effectively used or not for generating reasonable amount of return.

Return on Investment= (Net Income / Total Investment) X 100 Net Income before or after tax can be used for calculating ROI. Total investment includes investment in fixed Assets as well as working capital.

It acts as an effective control device in measuring and comparing the performance of different departments. It also helps departmental managers to find out the problems which adversely affect ROI.

**(b) Ratio Analysis:**

Ratio Analysis is a technique of analysing the financial statements of a business firm by computing different ratios.

**(c) Responsibility Accounting:**

Under this system of accounting, various sections, departments or divisions of an organisation are set up as 'Responsibility Centres'. Each centre has a head who is responsible for attaining the target of his centre.

**The various responsibility centres are as follows:**

**(i) Cost Centre:**

Cost centre, also known as expense centre, refers to a department of an organisation whose manager is held responsible for the cost incurred in the centre but not the revenues. For example, Production department of an organisation may be classified as Cost Centre.

**(ii) Revenue Centre:**

A revenue centre refers to a department which is responsible for generating revenues. For example, marketing department.

**(iii) Profit Centre:**

A profit centre refers to a department whose manager is responsible for both cost and revenues. For example, Repair and Maintenance department.

**(iv) Investment Centre:**

An investment centre is responsible for profits as well as investments made in the form of assets. For judging the performance of investment centre, return on investment (ROI) is calculated and compared with similar data for previous years for one's own centre as well as other similar enterprises. It is also compared with current data of competing enterprises.

**(d) Management Audit:**

Management Audit is a process of judging the overall performance of the management of an organisation. It aims at reviewing the efficiency and effectiveness of management and improving its future performance. Its basic purpose is to identify the deficiencies

in the performance of management functions. It also ensures updating of existing managerial policies.

**Following are the main advantages of management audit:**

- (i) It identifies the deficiencies in the performance of management functions.
- (ii) It helps in improving coordination among the functions of various departments.
- (iii) It ensures required modification in the existing managerial policies and techniques according to environmental changes.
- (iv) The continuous monitoring of the performance of management helps in improving control system.

There is no proper technique of management audit and also it is not compulsory under any law.

**(e) PERT and CPM:**

PERT (Programme Evaluation and Review Technique) and CPM (Critical Path Method) are two important techniques used in both planning and controlling. These techniques are used to compute the total expected time needed to complete a project & it can identify the bottleneck activities that have a critical effect on the project completion date. Such techniques are mainly used in areas like construction projects, aircraft manufacture, ship building etc.

**(f) Management Information System (MIS):**

Management Information System (MIS) is a computer based information system which provides accurate, timely and up-to-date information to the managers for taking various managerial decisions. Thus, it is an important communication tool as well as an important control technique. It provides timely information to the managers so that they can take appropriate corrective measures in case of deviations from standards.

**(g) Zero based Budgeting:**

Zero-based budgeting (ZBB) is a method of budgeting in which all expenses must be justified for each new period. The process of zero-based budgeting starts from a "zero base," and every function within an organization is analyzed for its needs and costs. Budgets are then built around what is needed for the upcoming period, regardless of whether each budget is higher or lower than the previous one.

ZBB allows top-level strategic goals to be implemented into the budgeting process by tying them to specific functional areas of the organization, where costs can be first grouped and then measured against previous results and current expectations.

Traditional budgeting calls for incremental increases over previous budgets, such as a 2% increase in spending, as opposed to a justification of both old and new expenses, as called for with zero-based budgeting. Traditional budgeting analyzes only new expenditures, while ZBB starts from zero and calls for a justification of old, recurring expenses in addition to new expenditures. Zero-based budgeting aims to put the onus on managers to justify expenses, and aims to drive value for an organization by optimizing costs and not just revenue.