7. CONTROLLING

Control means the power or authority to direct, order or restrain. In the context of an enterprise, control may be defined as "comparing operating results with the plans, and taking corrective action when results deviate from the plans".
Control require two things first, that there is a clear – cut and specific plan according to which any work is to proceed. Secondly, that it is possible to measure the results of operations with a view to detecting deviations.

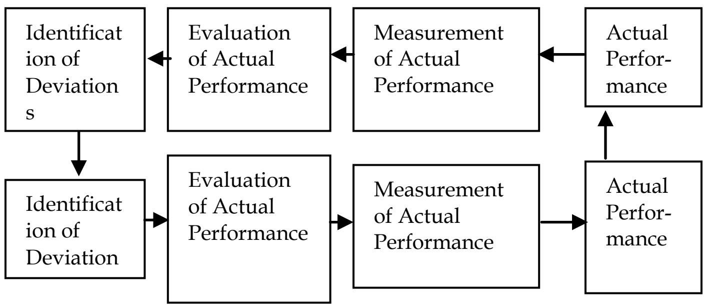

Fig. 7.1. Steps in Controlling Process

Need for Control
A control system is needed for three purposes to

- i) measure progress
- ii) uncover deviation and
- iii) taking corrective action

To Measure progress
The control process measures progress towards those goals. In an undertaking, control consists in varying whether everything occurs in conformity with plan adopted, the instructions issued and principles established.

To Uncover Deviations
Once a business organization is set into motion towards its specific objectives, events occur that tend to pull it 'off target'. Major events which tend to pull on organization 'off target' are as follows:

- i) Changes
- ii) Complexity
- iii) Mistakes
- iv) Delegation

To Indicate Corrective Action
Controls are needed to indicate corrective actions. They may reveal that plans need to be redrawn or goals needed to be modified or their is need for reassignment or clarification of duties or additional staffing.

Steps in a Control Process
There are three basic steps in control process:

- i) Establishing standards
- ii) Measuring and comparing actual against standards
- iii) Taking corrective action

Establishing Standards
Establishing standards against which results to be measured. Identify key areas for establishing standards like profitability, market position, productivity etc.

i) Physical standards

- Labour hours per unit of output
- Level of production per machine hour

Cost Standard
Direct and indirect costs per unit produced, material cost per unit, selling cost per unit of sale etc.

Revenue Standard
Average sales per customer, sales per capita in a given market area etc.

Capital Standard
Rate of return on capital invested Current asset / current liabilities = current ratio.

Intangible standard
Competence of manager and employees. Standards should emphasis the achievement of result more than conformity to rules to methods.

Measuring and Comparing Actual Results Against Standards
Measurement of performance can be done by personal observation while they are engaged in work and by a study of summaries of figures, reports, charts and statements.

Desirable Variations
Output above the standard or expenses below the standard.

Undesirable Variations
A variation in the delivery schedule agreed upon with the customer, or variations in diesel consumption by vehicles.

Who to Introduce a Control System
Whether measurement and comparison are to be done at stages in the total process or at the end. It depends upon purpose. If the purpose of control is to catch trouble while it is forming, then this should be done at various strategic points before the end of the process.

Taking Corrective Action
Compare actual performance with prescribed standards and find deviations. Corrective action should be taken without wasting of time so that normal position can be restored quickly. Identify the causes for deviations like inadequate and poor equipment and machinery, inadequate communication system, lack of motivation of subordinates, defective system of training and selection of personnel, defective system of remuneration etc.

Important Devices or Tools of Control

1. Traditional Devices

1. Budgeting or budgetary control
2. Cost control
3. Production control
4. Inventory control
5. Break-even point analysis
6. profit or loss control
7. Statistical Data Analysis
8. Audit

II. Modern Devices

1. Return on Investment Control
2. Programme Evaluation and Review Technique (PERT)
3. Management Information System (MIS)
4. Cybernetics
5. Management Audit

Traditional Devices

1. Budgetary Control
A budget is a financial plan for a definite period time. Budgetary control evolves a course of action that would make the realization of the budgeted targets possible. **Zero-based budgeting** as a method of budgeting under which all activities are reevaluated each time a budget is formulated.

2. Cost Control

It refers to control of all the costs of an undertaking, both direct and indirect, in order to achieve cost effectiveness in business operations.

3. Production Control

Production control is the process of planning production in advance of operations, establishing the exact **route** of each individual item, part or assembly, setting, starting and finishing dates for each important item, assembly and the finished product; and realizing the necessary orders as well as initiating the required follow up to effect the smooth functioning of the enterprise.

4. Inventory Control

It refers to controlling the kind, amount, location, movement, and timing of the various commodities used in and produced by the industrial enterprises.

5. Break – Even Point Analysis

The break even point may be defined as the point when sales revenue is equal to total cost (fixed and variable). In other words, it represents the level of activity when there is neither any profit nor loss.

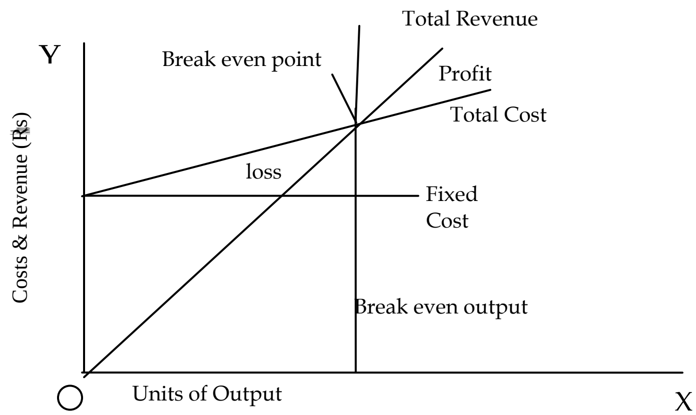

Fig. 5.2. Break even point analysis

Selling Price Variable Cost	::	Rs.200 Rs.300
Contribution Per unit	:	Rs.100
F.C.	:	Rs.1,50,000
B.E. Point	:	1,50,000 / 100
		= 1500 units

$$\text{Breakeven point} = \frac{\text{Fixed overhead}}{\text{Contribution}}$$

Contribution = Sales revenue – Variable cost

6. Profit and Loss Control

Profit and Loss Control refers to a control system under which sales, expenses, and hence profits of each branch or "product division" are compared with those of other branches and product divisions, as well as with historical trends, with a view to measuring deviations and taking necessary corrective action.

7. Statistical Analysis

Comparison of ratios, percentages, averages etc. of different periods can be done to monitor – deviations and their causes.

8. External and Internal Audit

External audit is enforced by law in respect of all joint stock companies, co-operatives etc. Its objective is to safeguard the interest of the share holder against the malpractices of management.
Firms may also have internal audit under which staff members of the company may verify financial transactions and financial records for analyzing the overall control system of the organization.