(TOPIC 1) Nature, purpose and process of controlling

Control is a primary goal-oriented function of management in an organisation. It is a process of comparing the actual performance with the set standards of the company to ensure that activities are performed according to the plans and if not then taking corrective action.

Every manager needs to monitor and evaluate the activities of his subordinates. It helps in taking corrective actions by the manager in the given timeline to avoid contingency or company's loss.

Controlling is performed at the lower, middle and upper levels of the management.

Features of Controlling

- An effective control system has the following features:
- It helps in achieving organizational goals.
- Facilitates optimum utilization of resources.
- It evaluates the accuracy of the standard.
- It also sets discipline and order.
- Motivates the employees and boosts employee morale.
- Ensures future planning by revising standards.
- Improves overall performance of an organization.
- It also minimises errors.

Controlling and planning are interrelated for controlling gives an important input into the next planning cycle. Controlling is a backwards-looking function which brings the management cycle back to the planning function. Planning is a forward-looking process as it deals with the forecasts about the future conditions.

Nature of Controlling

Based on the above definitions the following natures or characteristics of controlling can be presented below:

1. **Control is a Function of Management**

Actually control is a follow-up action to the other functions of management performed by managers to control the activities assigned to them in the organization.

2. **Control is based on Planning**

Control is designed to evaluate actual performance against predetermined standards set-up in the organization. Plans serve as the standards of desired performance. Planning sets the course in the organization and control ensures action according to the chosen course of action in the organization.

Unless one knows what he wants to achieve in the organization, he cannot say whether he has done right or wrong in the organization. Control is said to be the Last step in management process but really speaking it begins with the setting up a plan in the organization. Control implies the existence of plans or standards in the organization.

3. **Control is a Dynamic Process**

It involves continuous review of standards of performance and results in corrective action, which may lead to changes in other functions of management.

4. **Information is the Guide to Control**

Control depends upon the information regarding actual performance. Accurate and timely availability of feedback is essential for effective control action. An efficient system of reporting is required for a sound control system. This requires continuing monitoring and review of operations.

5. **The Essence of Control is Action**

The performance of control is achieved only when corrective action is taken on the basis of feedback information. It is only action, which adjust performance to predetermined standards whenever deviations occur. A good system of control facilities timely action so that there is minimum waste of time and energy.

6. **It is a Continuous Activity**

Control is not a one-step process but a continuous process. It involves constant revision and analysis of standards resulting from the deviations between actual and planned performance.

7. **Delegation is the key to Control**

An executive can take corrective action only when he has been delegated necessary authority for it. A person has authority to control these functions for which he is directly accountable. Moreover, control becomes necessary when authority is delegated because the delegator remains responsible for the duty. Control standards help a manger expand his span of management.

8. **Control Aims at Future**

Control involves the comparison between actual and standards. So corrective action is designed to improve performance in future.

9. **Control is a Universal Function of Management**

Control is a basic or primary function of management. Every manager has to exercise control over the subordinates' performance, no manager can get things done without the process of controlling. Once a plan becomes operational, follow-up action is required to measure progress, to uncover deficiencies and to take corrective actions.

Therefore, control is an essential managerial function at every level. The process of management is incomplete without controlling.

10. **Controlling is Positive**

The function of controlling is positive. It is to make things happen i.e. to achieve the goal with instead constraints, or by means of the planned activities. Controlling should never be viewed as being negative in character.

Characteristics of Control:

Following characteristics of control can be identified:

1. Control is a Managerial Process:

Management process comprises of five functions, viz., planning, organizing, staffing, directing and controlling. Thus, control is part of the process of management.

2. Control is forward looking:

Whatever has happened has happened, and the manager can take corrective action only of the future operations. Past is relevant to suggest what has gone wrong and how to correct the future.

3. Control exists at each level of Organization:

Anyone who is a manager, has to involve into control – may be Chairman, Managing Director, CEO, Departmental head, or first line manager. However, at every level the control will differ – top management would be involved in strategic control, middle management into tactical control and lower level into operational control.

4. Control is a Continuous Process:

Controlling is not the last function of management but it is a continuous process. Control is not a one-time activity, but a continuous process. The process of setting the standards needs constant analysis and revision depending upon external forces, plans, and internal performance.

5. Control is closely linked with Planning:

Planning and controlling are closely linked. The two are rightly called as 'Siamese twins' of management. "Every objective, every goal, every policy, every procedure and every budget become standard against which actual performance is compared.

Planning sets the ship's course and controlling keeps it on course. When the ship begins to veer off the course, the navigator notices it and recommends a new heading designed to return the ship to its proper course. Once control process is over its findings are integrated into planning to prescribe new standards for control.

6. Purpose of Controlling is Goal Oriented and hence Positive:

Control is there because without it the business may go off the track. The controlling has positive purpose both for the organization (to make things happen) and individuals (to give up a part of their independence for the attainment of organizational goals).

Process of Control:

Following are the steps involved into the process of control:

1. Establish the Standards:

Within an organization's overall strategic plan, managers define goals for organizational departments in specific, precise, operational terms that include standards of performance to compare with organizational activities. However, for some of the activities the standards cannot be specific and precise.

Standards, against which actual performance will be compared, may be derived from past experience, statistical methods and benchmarking (based upon best industry practices). As far as possible, the standards are developed bilaterally rather than top management deciding unilaterally, keeping in view the organization's goals.

Standards may be tangible (clear, concrete, specific, and generally measurable) – numerical standards, monetary, physical, and time standards; and intangible (relating to human characteristics) – desirable attitudes, high morale, ethics, and cooperation.

2. Measure Actual Performance:

Most organizations prepare formal reports of performance measurements both quantitative and qualitative (where quantification is not possible) that the managers review regularly. These measurements should be related to the standards set in the first step of the control process.

For example, if sales growth is a target, the organization should have a means of gathering and reporting sales data. Data can be collected through personal observation (through management by walking around the place where things are happening), statistical reports (made possible by computers), oral reporting (through conferencing, one-to-one meeting, or telephone calls), written reporting (comprehensive and concise, accounting information – normally a combination of all. To be of use, the information flow should be regular and timely.

3. Compare Performance with the Standards:

This step compares actual activities to performance standards. When managers read computer reports or walk through their plants, they identify whether actual performance meets, exceeds, or falls short of standards.

Typically, performance reports simplify such comparison by placing the performance standards for the reporting period alongside the actual performance for the same period and by computing the variance—that is, the difference between each actual amount and the associated standard.

The manager must know of the standard permitted variation (both positive and negative). Management by exception is most appropriate and practical to keep insignificant deviations away. Timetable for the comparison depends upon many factors including importance and complexity attached with importance and complexity.

4. Take Corrective Action and Reinforcement of Successes:

When performance deviates from standards, managers must determine what changes, if any, are necessary and how to apply them. In the productivity and quality-centered environment, workers and managers are often empowered to evaluate their own work. After the evaluator determines the cause or causes of deviation, he or she can take the fourth step— corrective action.

The corrective action may be to maintain status quo (reinforcing successes), correcting the deviation, or changing standards. The most effective course may be prescribed by policies or may be best left up to employees' judgment and initiative. The corrective action may be immediate or basic (modifying the standards themselves).

Importance of Control:

1. Guides the Management in Achieving Pre-determined Goals:

The continuous flow of information about projects keeps the long range of planning on the right track. It helps in taking corrective actions in future if the performance is not up to the mark.

2. Ensures Effective Use of Scarce and Valuable Resources:

The control system helps in improving organizational efficiency. Various control devices act as motivators to managers. The performance of every person is regularly monitored and any deficiency if present is corrected at the earliest.

Controls put psychological pressure on persons in the organization. On the other hand control also enables management to decide whether employees are doing right things.

3. Facilitates Coordination:

Control helps in coordination of activities through unity of action. Every manager will try to coordinate the activities of his subordinates in order to achieve departmental goals.

Similarly the chief executive also coordinates the functioning of various departments. The control acts as a check on the performance and proper results are achieved only when activities are coordinated.

4. Leads to Delegation and Decentralization of Authority:

A decision about follow-up action is also facilitated. Control makes delegation easier/better. Decentralization of authority is necessary in big enterprises. The management cannot delegate authority without ensuring proper control.

The targets or goals of various departments are used as a control technique. Various control techniques like budgeting, cost control; pre action approvals etc. allow decentralization without losing control over activities.

5. Spares Top Management to Concentrate on Policy Making:

For control processes management's attention is not required every now and then. The management by exception enables top management to concentrate on policy formulation.

TOPIC 2 kinds of control system, prerequisites of effective control system

Organizational control is important to know how well the organization is performing, identifying areas of concern, and then taking an appropriate action. There are three basic types of control systems available to executives: (1) output control, (2) behavioral control, and (3) clan control. Different companies opt different types of control, but many organizations use a mix of all of these three types.

Output Control

Output control zeroes in on measurable outcomes within an organization. In output control, executives must decide the acceptable level of performance, communicate the general expectations to the employees, track whether the performance values meet the expectations, and then make any needed changes.

Behavioral Control

Behavioral control generally focuses on controlling the actions unlike the results in case of output control. In particular, specific rules and processes are used to structure or to dictate behavior. For example, firms having a rule that requires checks to be signed by two people to try to prevent employee theft.

Clan Control

Clan control is a non-standardized type of control. It depends on shared traditions, expectations, values, and norms. Clan control is common in industries where creativity is vital, such as many high-tech businesses.

Management Fads

There are many management fads that have been closely tied to organizational control systems. **Management by objectives (MBO)** is a procedure wherein managers and employees work together to create and attain goals. These goals help the firm guide employee behavior and serve as benchmarks for measuring their performance.

A **quality circle** is a formal employee group that often meets regularly to brainstorm various solutions for organizational problems. As the name "quality circle" suggests, finding out behaviors that would help to improve the quality of products and/or the operations management procedures that create the products was the formal charge of this circle.

Sensitivity training groups (or T-groups) were used in many organizations in the 1960s. It involved approximately eight to fifteen people coming together to openly discuss their emotions, feelings, beliefs, and biases about workplace issues. It did not have the rigid nature of MBO, but the T-group involved free-flowing conversations. These discussions lead individuals to nurture a greater understanding of themselves and others. The expected results included enlightened workers and a far more mutual understanding, and a better teamwork.

Effective Organizational Control Systems

The management of any organization must develop a control system tailored to its organization's goals and resources. Effective control systems share several common characteristics. These characteristics are as follows:

- **A focus on critical points.** For example, controls are applied where failure cannot be tolerated or where costs cannot exceed a certain amount. The critical points include all the areas of an organization's operations that directly affect the success of its key operations.
- **Integration into established processes.** Controls must function harmoniously within these processes and should not bottleneck operations.
- **Acceptance by employees.** Employee involvement in the design of controls can increase acceptance.
- **Availability of information when needed.** Deadlines, time needed to complete the project, costs associated with the project, and priority needs are apparent in these criteria. Costs are frequently attributed to time shortcomings or failures.
- **Economic feasibility.** Effective control systems answer questions such as, “How much does it cost?” “What will it save?” or “What are the returns on the investment?” In short, comparison of the costs to the benefits ensures that the benefits of controls outweigh the costs.
- **Accuracy.** Effective control systems provide factual information that's useful, reliable, valid, and consistent.
- **Comprehensibility.** Controls must be simple and easy to understand.

TOPIC 3rd Controlling Technique & Method

Control is a fundamental managerial function. Managerial control regulates the organizational activities. It compares the actual performance and expected organizational standards and goals. For deviation in performance between the actual and expected performance, it ensures that necessary corrective action is taken.

There are various techniques of managerial control which can be classified into two broad categories namely-

- Traditional techniques
- Modern techniques

Traditional Techniques of Managerial Control

Traditional techniques are those which have been used by the companies for a long time now. These include:

- Personal observation
- Statistical reports
- Break-even analysis
- Budgetary control

1. Personal Observation

This is the most traditional method of control. Personal observation is one of those techniques which enables the manager to collect the information as first-hand information.

It also creates a phenomenon of psychological pressure on the employees to perform in such a manner so as to achieve well their objectives as they are aware that they are being observed personally on their job. However, it is a very time-consuming exercise & cannot effectively be used for all kinds of jobs.

Browse more Topics under Controlling

- Meaning of Controlling
- Responsibility Accounting, Management Audit and Pert and CPM

2. Statistical Reports

Statistical reports can be defined as an overall analysis of reports and data which is used in the form of averages, percentage, ratios, correlation, etc., present useful information to the managers regarding the performance of the organization in various areas.

This type of useful information when presented in the various forms like charts, graphs, tables, etc., enables the managers to read them more easily & allow a comparison to be made with performance in previous periods & also with the benchmarks.

3. Break-even Analysis

Breakeven analysis is a technique used by managers to study the relationship between costs, volume & profits. It determines the overall picture of probable profit & losses at different levels of activity while analyzing the overall position.

The sales volume at which there is no profit, no loss is known as the breakeven point. There is no profit or no loss. Breakeven point can be calculated with the help of the following formula:

Breakeven point = Fixed Costs/Selling price per unit – variable costs per unit

4. Budgetary Control

Budgetary control can be defined as such technique of managerial control in which all operations which are necessary to be performed are executed in such a manner so as to perform and plan in advance in the form of budgets & actual results are compared with budgetary standards.

Therefore, the budget can be defined as a quantitative statement prepared for a definite future period of time for the purpose of obtaining a given objective. It is also a statement which reflects the policy of that particular period. The common types of budgets used by an organization.

Some of the types of budgets prepared by an organisation are as follows,

- Sales budget: A statement of what an organization expects to sell in terms of quantity as well as value
- Production budget: A statement of what an organization plans to produce in the budgeted period
- Material budget: A statement of estimated quantity & cost of materials required for production
- Cash budget: Anticipated cash inflows & outflows for the budgeted period
- Capital budget: Estimated spending on major long-term assets like a new factory or major equipment
- Research & development budget: Estimated spending for the development or refinement of products & processes

Modern Techniques of Managerial Control

Modern techniques of controlling are those which are of recent origin & are comparatively new in management literature. These techniques provide a refreshingly new thinking on the ways in which various aspects of an organization can be controlled. These include:

- Return on investment
- Ratio analysis
- Responsibility accounting
- Management audit
- PERT & CPM

1. Return on Investment

Return on investment (ROI) can be defined as one of the important and useful techniques. It provides the basics and guides for measuring whether or not invested capital has been used effectively for generating a reasonable amount of return. ROI can be used to measure the overall performance of an organization or of its individual departments or divisions. It can be calculated as under-

Net income before or after tax may be used for making comparisons. Total investment includes both working as well as fixed capital invested in the business.

2. Ratio Analysis

The most commonly used ratios used by organizations can be classified into the following categories:

- Liquidity ratios
- Solvency ratios
- Profitability ratios
- Turnover ratios

3. Responsibility Accounting

Responsibility accounting can be defined as a system of accounting in which overall involvement of different sections, divisions & departments of an organization are set up as 'Responsibility centers'. The head of the center is responsible for achieving the target set for his center. Responsibility centers may be of the following types:

- Cost center
- Revenue center
- Profit center
- Investment center

4. Management Audit

Management audit refers to a systematic appraisal of the overall performance of the management of an organization. The purpose is to review the efficiency &n effectiveness of management & to improve its performance in future periods.

5. PERT & CPM

PERT (programmed evaluation & review technique) & CPM (critical path method) are important network techniques useful in planning & controlling. These techniques, therefore, help in performing various functions of management like planning; scheduling & implementing time-bound projects involving the performance of a variety of complex, diverse & interrelated activities.

TOPIC 4th Social Audit: Definition, Examples, Importance, Objectives & Components

A social audit can be defined as a review of a company's production procedure, policies, and code of conduct to find how they impact society. It is conducted out of social responsibility by an organization to establish its positive image in public, and if anything is found negative, then suitable actions are taken to correct them.

The meaning of social audit is to inspect a company's working and production procedure to improve its social performance. The output of the social audit provides information on how well a company is keeping a balance between social responsibility and making profits.

Components of Social Audit

#1 Social Components:

Social components are a concern with the relationship of the company with society and the employees working in it. The social component is concerned with the general working conditions of employees, their rights, and the initiative taken by the organization for the betterment of the society and the local community.

#2 Economic Components:

Economic indicators of the organization must be audited, and required actions should be should if there is a case of any irregularity.

#3 Health and Educational Components:

The measurement of the health and educational facility in the organization. Whether the required safety and health measures are taken by the organization in the workplace.

#4 **Environmental components:**

Whether the production process or working procedure is harmful to the environment. Whether the working process of the organization is polluting the environment and what measures are taken by the organization to minimize the impact on the environment.

#5 **Political Components:**

The political environment in the organization is audited, which is the analysis of the relationship between management and employees, and manager and workers of the organization.

Objectives of Social Audit

1. To assess the impact of the company's operations on the local community and environment.

2. To determine and minimize or eliminate the economic and social gaps.
3. To assess the conditions in which workers are made to work.
4. To determine whether workers are being paid fair wages or not.
5. To determine whether the shareholders of the company are given fair information about the financial status of the company or not and whether they are paid their dividend in the company's income regularly or not.
6. To put a stop on irregular activities.
7. To formulate and activate initiatives for the development of local communities.
8. To Take measures for the extension and development of the company's business.
9. To keep the fair price of the goods produced for the consumers.
10. To ensure that whether the assets and resources of the company are being used properly or are being wasted.

Importance of social audit

Conducting a social audit is important, as an organization not only impact the employees working in it or the consumers who consume products produced by them, but it also impacts the society and people of the local community.

It is conducted so that no powerful organization can exploit the resources available to it and don't use any antisocial means to make a profit. In some countries, a social audit is made mandatory by the government.

However, to make the reports public or not is completely in the hands of the organization. Because of the continuous deteriorating condition of environment and society, the social audit has become essential to curb the antisocial and anti-environment actions of organizations.

Examples of Social Audit

If a stationery store makes donations to local government schools. They claim to make provides books, notebooks, and other stationery things to needy students. A social audit will perform a thorough evaluation of charity records, documents, volunteer work, etc. to check the validity of the claims made by the store.

If a company is doing a green business without harming the environment in any way and by opting environment-friendly procedures.

A social audit assessment report can be made available for the company on the website of the company, which can be referred by the people who might plan to invest in the company.

How to conduct Social Audit?

Followings are the well-defined steps involved in the social audit.

#1 Define the scope of the social audit:

Social auditing consists of the auditing of various departments and activities at the same time. Therefore, it is important for the auditor to establish the boundaries that mean he should decide what should be audited and what should not be audited during the auditing process.

#2 Choose the people participating in the social audit process:

In the next step, you will decide who should be included in the process whether they are the management of the organization or stakeholders an also define up to what percent a person would be involved in the process, how often they would be contacted, and what information would be shared with whom?

#3 **Define the key issues which are required to be cross-checked in the social audit process and a data collection procedure for those issues:**

In the next step, key issues which are required to be analyzed and tackled through the social audit process should be defined. Define what information should be collected for the particular issue and what methods should be opted to collect information.

#**4 Generate a report for social audit findings and verify it:**

In the next step, you should generate a report about the findings of social auditing. Social auditing reports might be or might not be published. Therefore, It is important to review the report and physically verify the process of important tasks.

Make sure to verify the processes by visiting the workplace; otherwise, a small mistake in the social auditing report might leave the accuracy of the whole report in jeopardy.

#5 Present the social audit report:

The main purpose of conducting a social audit is to present the report about the work process of an organization. The report is presented to designated management or shareholders, and sometimes reports are presented publicly.