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Controlling

AAT Level II
BMA - Business Management

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Importance and concepts of Controlling

Introduction to Controlling

Organizational Controlling is the process of establishing and maintaining authority over and throughout an enterprise. A system that helps managers to evaluate and store a significant amount of data and information is highly important for an effective control process in an organization especially larger business. Manager should be able to evaluate whether the business as well as employees are operating as expected a take corrective action adequately to control effectively. Organizational control involves using strategy, tactics, and operational oversight to monitor and improve company processes.

Controlling monitors the differences between actual and standard outcomes, identifies reasons for differences and assists in taking corrective managerial action for better performance. It also verifies whether the business runs according to the plans and whether the business happenings/instruction/principles are on the same track to meet the objectives. Most importantly, controlling guarantees that the organizational resources are utilized effectively and efficiently to achieve the planned goals.

According to Brach, "Controlling is a systematic exercise which is called as a process of checking actual performance against the standards or plans with a view to ensure adequate progress and also recording such experience as is gained as a contribution to possible future needs."

According to Donnell, "Just as a navigator continually takes reading to ensure whether he is relative to a planned action, so should a business manager continually take reading to assure himself that his enterprise is on right course."

Therefore, control is the regulation of organizational activities so that some targeted element of performance remains within an acceptable limit. Without this regulation, organization has no indication of how well they perform in relation to their goals.

Characteristics of Controlling

The characteristics or nature of controlling can be described via the following aspects:

1. Controlling is an essential function of every manager :-
   The controlling is a universal role of management as it is done in all non-business and business organizations. Controlling is also performed at all the levels of management. It is every manager's duty to assure that the actual performance of the organization is in line with the plans and targets.

2. Controlling is a fundamental management function :-
Planning, staffing, directing, organizing and controlling all are management functions. How- ever, controlling is considered the most important as if we eliminate it all the other functions become meaningless.

3. Controlling is a continuous activity :-
Controlling is needed at all times continuously. It should not be done only once or done with long breaks. Under controlling, the progress has to be assessed continuously.

4. Controlling is related to results :-
As the progress performance is assessed based on the results and appropriate actions are taken accordingly, controlling is a process related to results.

5. Controlling is forward looking :-
Controlling at all times looks to the future so that a follow-up can be made at any time necessary.

6. Controlling is both the beginning and the end of the process of management :-
The need of control is felt both at the beginning and end of the process of management.

7. Controlling is related with planning :-
Controlling and Planning are two attached roles of management. Lacking in planning makes controlling meaningless and planning is useless without controlling. Planning pre supposes controlling and controlling succeeds planning.

8. Controlling is a dynamic process :-
Since controlling requires taking reviewed methods, changes have to be made wherever possible.

The Importance and Limitations of Controlling

Importance of controlling

1. Helps in achieving organizational goals:-

When the plans are made in the organization these are directed towards achievement of organizational goals and the controlling function ensures that all the activities in the organization take place according to plan and if there is any deviation, timely action is taken to bring back the activities on the path of planning. When all the activities are going according to plan then automatically these will direct towards achievement of organizational goal.

2. Judging accuracy of standards:-

Through strategic controlling we can easily judge whether the standard or target set are ac- curate or not. An accurate control system revises standard from time to time to match them with environmental changes.

3. Making efficient use of resources:-

Like traffic signals, control guides the organization and keeps it on the right track. Each activity is performed according to predetermined standards. As a result, there is most and effective use of resources.

4. Improving employee motivation:-

An effective control system communicates the goals and standards of appraisal for employees to subordinates well in advance. A good control system also guides employees to come out from their problems. This free communication and care motivate the employees to give better performance.

5. Ensures order and discipline:-

Control creates an atmosphere of order and discipline in the organization. Effective control- ling system keeps the subordinates under check and makes sure they perform their functions efficiently. Sharp control can detect dishonesty and fraud of employees. Strict control brings more order and discipline in work environment.

6. Facilitate coordination in action:-

Control helps to maintain equilibrium between means and ends. Controlling makes sure that proper direction is taken and that various factors are maintained properly. All the departments are controlled according to predetermined standards which are well coordinated with one another. Control provides unity of direction.

7. Controlling helps in improving the performance of the employees:-

Controlling insists on continuous inspection on the employees and control helps in creating an atmosphere of order and discipline. Under controlling function it is make sure that employees are aware of their duties and responsibilities very clearly. They must know clearly the standards against which their performance will be judged. These standards help the employees to work efficiently.

Control can be exercised on employees' performance through following measures:-

a. Self-appraisal report:

The employees are asked to prepare a report of their performance and to explain whether their performance is in accordance with plan or not. In this report employees specify their achievements.

b. Performance appraisal report by supervisors:

The superiors continuously monitor and observe the employees when they are performing the job and comparison between the standard and actual performance is done. On the basis of this observation the managers prepare performance appraisal report. These reports become the base for giving promotions, increments, bonus etc. to the employees. To have good report the employees perform efficiently and effectively.

8.Controlling helps in minimizing the errors:-

Small errors or small mistakes may not seriously affect the organization. But if these errors are repeated again and again it will become a serious matter and can be disastrous for the organization. An effective controlling system helps in minimizing the errors by continuous monitoring and check. The managers try to detect the error on time and take remedial steps to minimize the effect of error.

All the important aspects of controlling is summarized into figure
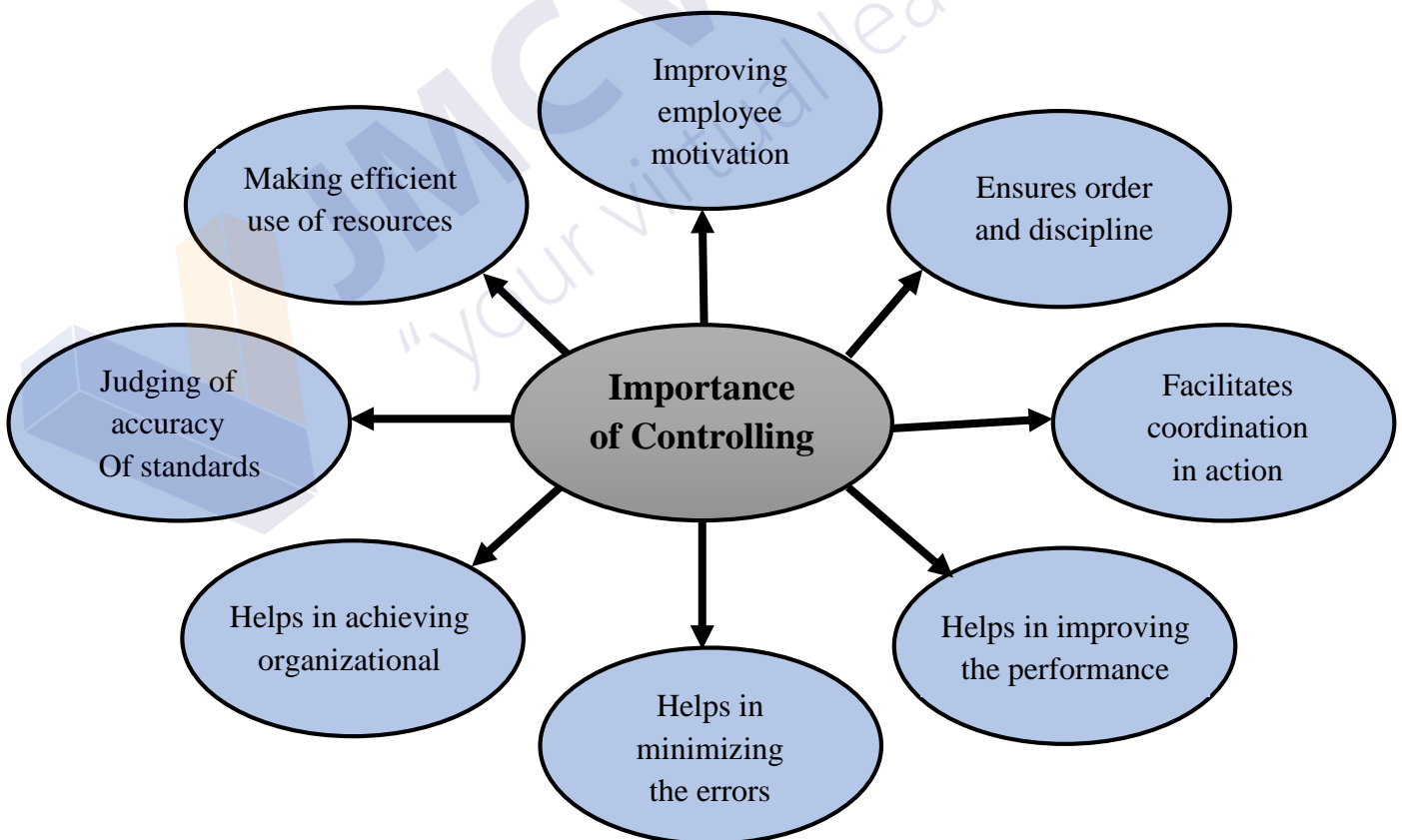
Limitations of Controlling

Even though controlling provides many benefits to organizations, it has some inherent limitations. Some of them are given below.

1. Difficulty in setting quantitative standards:

   Control system loses its effectiveness when standard of performance cannot be defined in quantitative terms and it is very difficult to set quantitative standard for human behavior, efficiency level, job satisfaction, employee's morale, etc. In such cases judgment depends upon the discretion of manager.

2. No control on external factors:

   An enterprise cannot control the external factors such as government policy, technological changes, change in fashion, change in competitor's policy, etc.

3. Resistance from employees:

   Employees often resist control and as a result effectiveness of control reduces. Employees feel control reduces or curtails their freedom. Employees may resist and go against the use of cam- eras, to observe them minutely.

4. Costly affair:

Control is an expensive process it involves lot of time and effort as sufficient attention has to be paid to observe the performance of the employees. To install an expensive control system organization, have to spend large amount. Management must compare the benefits of controlling system with the cost involved in installing them. The benefits must be more than the cost involved then only controlling will be effective otherwise it will lead to inefficiency.

Levels and Types of Controlling

Levels of Controlling

According to famous management authors, levels of controlling in organizations have been analyzed in different perspectives. Some authors argue that main controlling levels are strategic controlling and operational controlling. Most of large scaled organizations have one or more specialized managerial positions called controller. Controller is a position in organizations that helps line managers with their control activities.

Strategic control

To what extent the strategies of the organization are successful in meeting organizational goals is assessed by strategic control. Hence, it starts with following the implemented strategy and then detects on areas with issues or potential issues implying the inappropriateness of the strategy. It also helps to make necessary amendments. Strategic control allows the company to take a step back and view a bigger picture and assure all the pieces of the picture are properly associated.

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Generally strategic control searches whether the company is moving in the right direction, or whether assumptions of management about major trends and changes in the company's environment are correct. Therefore strategic controlling can be carried out in 04 aspects given below.

1. Premise Control

   Certain planning premises or predictions are based for every single strategy. Premise control is intended to monitor systematically and persistently whether the premises on which a strategy is based are yet effective and usable. If the company discovers that a vital premise is not valid anymore, the company will have to change the strategy. It always best to identify any invalid premises sooner so that the respective strategy can be amended to mirror realism.

2. Special Alert Control

   A special alert control is the demanding and fast reconsideration of a company's strategy as the happening of an instantaneous, unexpected event. Purchase of your rival company by an outsider is an excellent example for this. Such a happening will require an instant and powerful reconsideration of the company strategy. Therefore management can arrange crisis teams to manage those crises to avoid the unexpected losses.

3. Implementation Control

   Implementing a strategy means inception of a series of steps, investments, activities and actions that happen over a long period. A manager would assemble assets, undertake exceptional projects and recruit or reallocate staff. Implementation control is the kind of strategic control that should be carried out as happenings unfold. Strategic thrusts/projects and milestone reviews are two types of implementation controls. Strategic thrusts deliver you with evidence that determines whether the overall strategy is shaping up as scheduled. In milestone reviews, the development of the strategy is monitored at numerous milestones or intervals.

4. Strategic Surveillance

Strategic surveillance is intended to detect a widespread series of happenings inside and outside to your business that would possible impact the roadway of the strategy. Strategic surveillance is grounded on the impression that important things can be uncovered by unforeseen information by observing numerous information sources. E.g. trade magazines, conversations, observations, journals and trade conferences

Operational control

In contrary to strategic control, operational control concerns with executing the strategy. Operational controls operate within the structure set by the strategy. Generally these standards, objectives and goals are set for key subsystems within the business, such as business projects, units, products, responsibility centers and functions. Usual operational control measurements are net profit, return on investment, product quality and cost. These measurements are fundamentally summations of finer-grained control measures. When operational control results in corrective remedial action that requires strategic changes provides implication to strategic controls.

Difference between Strategic control and operational control

Operational controlling and strategic controlling are two diverse controlling levels. They differ with respect to actions, measures and analysis. The differences are briefed in table. Differences between Strategic control and operational control

Strategic Control	Operational Control
Necessitates data from more sources	Requires data from very few sources
Necessitates more data from external Sources	Necessitates data from internal operating factors
Strategic control is more concerned with measuring the accuracy of the decision premise.	Operating decisions tend to be concerned with the quantitative value of certain outcomes
The time for strategic control is longer	The time for operating control is relatively short
Strategic control models are less precise	Operational control models, which are generally very precise in the narrow domain they apply
Strategic control relies on variable reporting interval	The typical operating measurement is concerned with operations over some period of time: pieces per week, profit per quarter, and the like
It is future oriented	Operational control decisions in which control data give rise to immediate decisions that have immediate impacts
The key activity in strategic control analysis is alternative generation	The key analysis step in operations is to discover exactly what happened

Steps of Controlling Process

The control process involves carefully collecting information about a system, process, person, or a group of people in order to make necessary decisions about each. Managers set up control systems that consist of four key steps. Each steps are interrelated as given in below figure.

Controlling Process
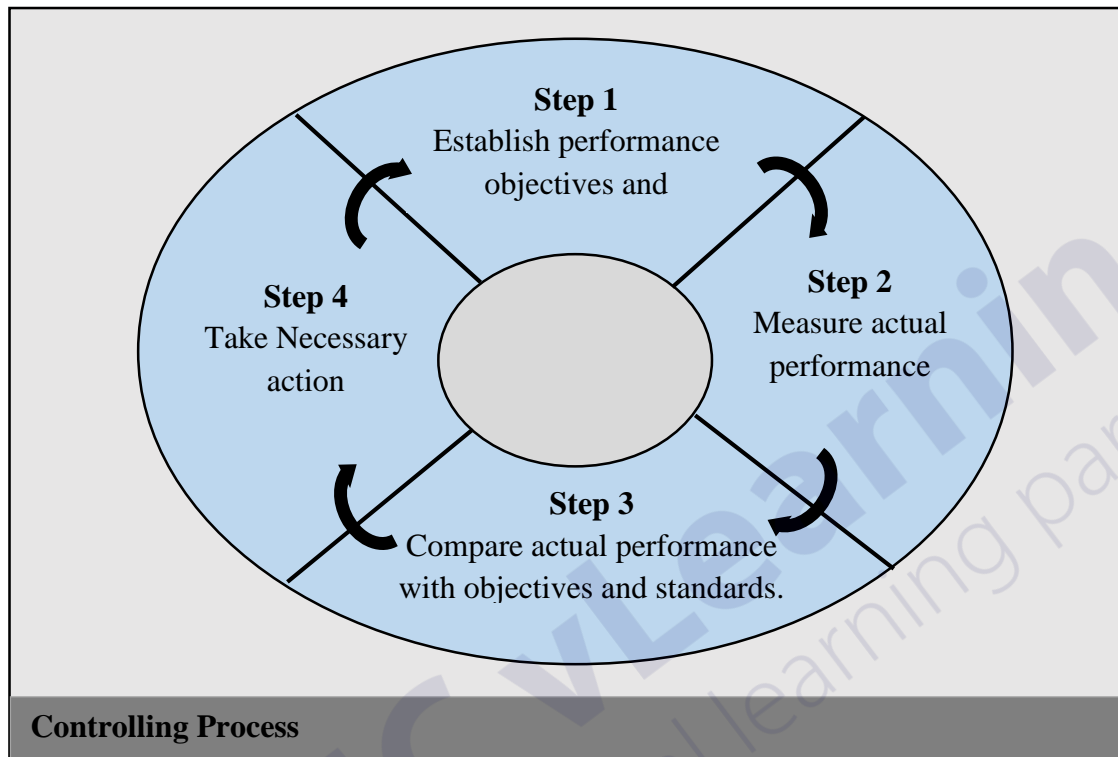
1. **Establish standards to measure performance.**

   Within an organization's overall strategic plan, managers define goals for organizational departments in specific, operational terms that include standards of performance to compare with organizational activities. Standards are the plans or the targets which have to be achieved in the course of business function. They can also be called as the criterions for judging the performance.

   Standards are generally classified into two:

   ● Measurable or tangible standards - Those standards which can be measured and expressed are called as measurable standards. They can be in form of cost, output, expenditure, time, profit, etc.
   ● Non-measurable or intangible standards - There are standards which cannot be measured monetarily.

8

For example, performance of a manager, deviation of workers, attitudes of employees towards management etc. can be considered as intangible standards.

Controlling becomes easy through establishment of these standards because controlling is exercised on the basis of these standards.

2. **Measure actual performance.**

Most organizations prepare formal reports of performance measurements that manager's review regularly. These measurements should be related to the standards set in the first step of the control process.

Finding out deviations becomes easy through measuring the actual performance. Performance levels are sometimes easy to measure and sometimes difficult. Measurement of tangible standards is easy as it can be expressed in units, cost, money terms, etc. Most of the time qualitative measurements relating to performances of managers are difficult to be measured.

It is also sometimes done through various reports like weekly, monthly, quarterly, yearly reports

Example

If sales growth is a target, the organization should have a mean of gathering and reporting

sales data. However in the case of measuring behavior and commitment of managers following indicators may be relevant.

- Attitude towards workers
- Their morale to work
- Attitudes towards the physical environment
- Their communication with the superiors.

3. Compare performance with the standards.

This step compares actual activities to performance standards. Comparison of actual performance with the planned targets is very important. Deviation can be defined as the gap between actual performance and the planned targets. The manager has to find out two things here- Ex- tent of deviation and Cause of deviation.

Extent of deviation means that the manager has to find out whether the deviation is positive or negative or whether the actual performance is in conformity with the planned performance. The managers have to exercise control by exception. He has to find out those deviations which are critical and important for the business. Minor deviations have to be ignored. Major

deviations like replacement of machinery, appointment of workers, quality of raw material, rate of profits, etc. should be looked upon seriously. Therefore, it is said, "If a manager controls everything, he ends up controlling nothing."

Example

If stationery charges increase by a minor 5 to 10%, it can be called as a minor deviation. On the other hand, if monthly production decreases continuously, it is called as major deviation. Once the deviation is identified, a manager has to think about various causes which has led to deviation.

The causes can be:

• Erroneous planning
• Weak Co-ordination
• Defective Implementation of plans
• Ineffective Supervision and communication.

When managers read computerized 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.

4. Take corrective actions.

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- take corrective action. The most effective course may be prescribed by policies or may be best left up to employees' judgment and initiative.

Once the causes and extent of deviations are known, the manager has to detect those errors and take remedial measures for it. There are two alternatives here:

● Taking corrective measures for deviations which have occurred; and

● After taking the corrective measures, if the actual performance is not in conformity with plans, the manager can revise the targets.

It is here the controlling process comes to an end. This step is an important step because it is only steps which manager can take corrective actions over the deviations.

Finally managers should understand that these steps must be repeated periodically until the organizational goal is achieved.

Relationship between Planning and Controlling.

Planning and controlling are two separate functions of management, yet they are closely related. The scopes of both activities go hand in hand. Without the basis of planning, controlling activities becomes baseless and without controlling, planning becomes a meaningless exercise. In absence of controlling, no purpose can be served. Therefore, planning and controlling reinforce each other. According to Billy Goetz, the Relationship between the two can be summarized in the following points

- Planning precedes controlling and controlling succeeds planning.
- Planning and controlling are inseparable functions of management.
- Activities are put on rails by planning and they are kept at the right place through controlling.
- The process of planning and controlling works on Systems Approach which is as follows

Planning ➡ **Results** ➡ **Corrective Action**

Planning and controlling are integral parts of an organization as both are important for the smooth running of an enterprise.

- Planning and controlling reinforce each other. Each drives the other function of management.

In the present dynamic environment which affects the organization, the strong relationship between the two is very critical and important. It is quite likely that planning fails due to some unforeseen events. There controlling comes to the rescue. Once controlling is done effectively, it gives us stimulus to make better plans. Therefore, planning and controlling are in separate functions of a business enterprise,

Major relationships between Planning and Controlling Functions of Management can be further analyzed based on following aspects.

1. Meaning:

Planning is the basic function of every enterprise as in planning we decide what is to be done, how it is to be done, when it is to be done and by whom it must be done. Planning bridges the gap between where we are standing today and where we want to reach. Controlling means keeping a check that everything is in accordance with the plan and if there is any deviation, taking preventive measures to stop that deviation. The meaning of controlling makes it clear that controlling function is undertaken for right and timely implementation of plans.

2. Planning and controlling are interdependent and interlinked:

Planning and controlling functions always co-exist or have to exist together as one function depends on the other. The controlling function compares actual performance with the planned performance and if there is no planned performance then controlling manager will not be able to know whether the actual performance is on track or not. The base for comparison or the yardstick to check is given by planning to controlling function.

On the other hand, the planning function is also dependent on controlling function as plans are not made only on papers but these have to be followed and implemented in the organization. The controlling function makes sure that everyone follows the plan strictly. Continuous monitoring and check in controlling function make it possible that everyone follows the plan. So both the functions are interlinked and interdependent as for successful execution of both the functions planning and controlling.

Example

If the workers have produced 800 units the manager can know "whether it is adequate or not, only when there is a standard production set up by planners. So base of comparison comes from planning only. On the other hand, if the standard target is 1,000 units then controlling managers make sure that there is improvement in the performance and the employees have achieved the set target.

3. Planning and controlling are both backward looking as well as forward looking:

Controlling is backward looking because like a postmortem of past activities the manager looks back to previous year's performance to find out its deviation from standard, planning is also backward looking because planning is guided by past experiences and feedback report of controlling function.

Planning is also forward looking because plans are prepared for future. It involves looking in advance and making policy for maximum utilization of resources in future.

Controlling is also forward looking because controlling does not end only by comparing past performance with standard.

It involves finding the reasons for deviations and suggests the measures so that these deviations do not occur in future. So, this statement that planning is forward looking and controlling is backward looking is only partially correct as planning and controlling are both forward looking as well as backward looking.

Classification of controlling techniques.

Controlling has different types and approaches within the strategic and operational levels. These controlling types can be classified based on the following aspects:

- Level of proactivity
- Outcome versus behavioral
- Financial and non-financial

Types of controlling according to level of proactivity

Proactivity is well-defined as the observing of issues in a way that provides timely prevention, rather than after the fact reaction. Consequently, three types of controlling can be implemented based on proactivity level in both strategic and operational level of controlling. These are summarized in below figure
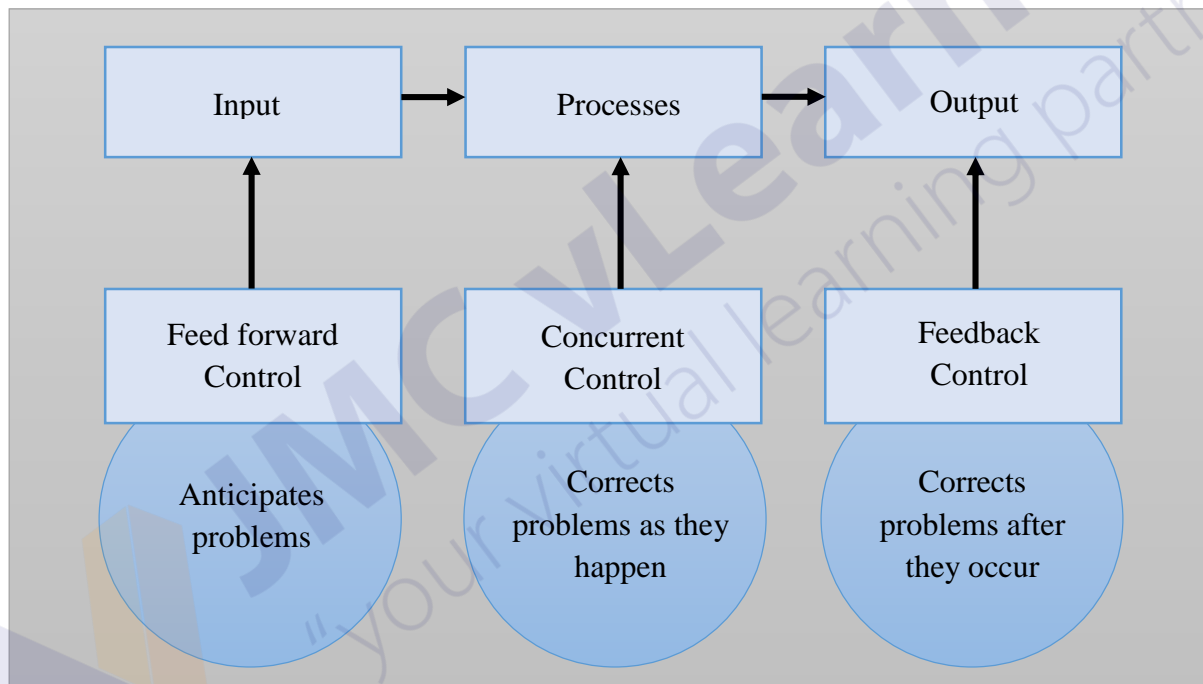
Feed forward Control

Feed forward is a management and communication term that refers to giving a control impact. to an employee or an organization from which you are expecting an output. Feed forward is not just pre-feedback, because feedback is always based on measuring an output and sending feedback on that output. Pre-feedback given without measuring output may be understood as a confirmation or just an acknowledgment of control command. Feed forward is predictive in nature. Picture an analyst statistically measuring the quality and quantity of a given output based on information gathering.

Feed forward controlling focuses on what we can do earlier so that it assists to achieve our plans successfully. The essence of feed forward control is to see the problems coming in time to do something about them. For instance, feed forward controls include equipment and due diligence on investments and preventive repairs on machinery.

Feedback Control

Feedback is a process in which information about the past or the present is used to influence the present or future. As part of a chain of cause-and-effect that forms a circuit or loop, actions are said to "feedback" into themselves.

Feedback helps an organization seeking to improve its performance make the necessary adjustments. Feedback serves as motivation for many people in the workplace. When employees receive negative or positive feedback, they decide how to apply it in their daily work. Feedback for the system as a whole also provides common points of discussion for management and al- lows for a holistic appraisal of how processes can be improved.

Consequently, feedback controls include collecting information regarding a finished action, assessing the gathered information and taking action to develop alike prospective activities. This usually a basis of reaction and it is the least proactive of controls. Managers are allowed to use past performance info to assure performance in the future are according to the plans objectives under the Feedback control method

Concurrent Control

Concurrent control is active engagement in a current process where observations are made in real time. A set of processes are implemented to monitor project execution to discover and solve problems or potential problems in a timely manner.

Though this type can avoid the issue becoming worse, it is not necessarily proactive. Therefore,

Concurrent control is usually known as real-time control as it deals with the present. An excellent and easy example of concurrent control is altering the temperature of the water when bathing as required

Outcome and Behavioral Controls

Controls also differ subject to what is observed, results or performances. Consequently, strategic or operational control can be divided into two categories

Outcome controls

When merely one/two measurements are good tools to assess business health, outcome controls are preferable. E.g. tools such as return on asset or return on investment. For the outcome control to be effective there should be less external interruption between management decisions and business performance.

Behavioral controls

Behavioral controls include the direct assessment of managerial and employee decision making, not of the results of managerial decisions. Behavioral controls tie rewards to a broader range of criteria, such as those identified in the Balanced Scorecard. Behavioral controls and commensurate rewards are typically more appropriate when there are many external and internal factors that can affect the relationship between a manager's decisions and organizational performance. They're also suitable when managers need to organize resources and capabilities across different business units.

Financial and Non-financial Controls

Financial control encompasses the company to control costs/expenses through a budget. Therefore, the company decides which features of its financial condition are more important, whether it is assets, sales, or profitability, tries to estimate them through budgets and then compares budgeted targets with actual performance. Profitability indicators and sales levels would be relevant strategic controls.

On the hand, non-financial controls are also becoming increasingly important and dominant, for examples assessing employee satisfaction, customer loyalty, referrals, etc. the main difference between financial and non-financial is that non-financial controls focuses on facts that do not bring financial prospects immediately, however, it leads to positive performance of the company. The theory behind such nonfinancial controls is that they should provide managers with a glimpse of the organization's progress well before financial outcomes can be measured.

Factors to be considered in controlling

1. Planned Objectives

There is an inherent relationship among the planning and controlling process of an organization. If there is no planning process, there is no effective controlling. Controlling process is initiated by developing controlling standards and criteria. These criteria are basically derived from the objectives set at the planning process of the organization.

2. Ability of absorption of complexity

Organizations are highly complex today in terms of complex activities, systems and processes And the company controlling process should be developed in a way to respond these internal As well as external complexities of the firm.

3. Compatibility with the organization size and structure

The same controlling mechanism is not applicable for the firm which is operated with limited number of operation and scope in compare with the large-scale organizations, which is operations are highly diversified and complex.

4. Level of motivation

Controlling is not always a set of activities designed to correct the behavior of employees of an organization and it also should be a process which prevent, the firm members who deviate from the level of accepted behavior limitations. Successful control system therefor is composed with certain features to motivate company members to work accordingly.

5. Expectations of the management

Successful control system always should be capable in fulfilling the expectations of the management.

6. Cost effectiveness

The cost associated with controlling system should be substantially less than the benefits generated from it.

Behavioral Implications in controlling

Behavioral Implications of controlling are usually manifested in the following phenomena:-

1. There is spoiling of human relations in the organization - because people resist control for any reasons whatsoever.
2. Suppressing initiative and creativity - this leads to underutilization of human potential and also leads to poor motivation and morale.
3. Creating of a feeling of fear in subordinates - because of imposition of fines, penalties etc. for non-compliance with standards. This phenomenon makes people internally aggressive and frustrated and gives an impetus to the emergence of powerful informal groups.
4. Minimum performance by people - this is the outcome of negative controls. People just do minimum work to conform to control standards and usually not try to exceed standards.

16