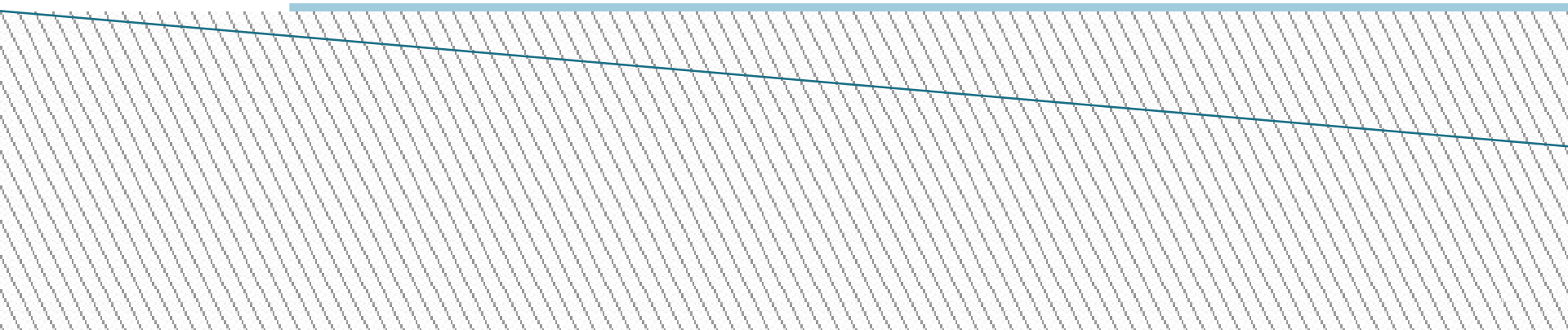


# Module 3: Controlling



# What we will cover

## Module 3 : Controlling

What is Controlling

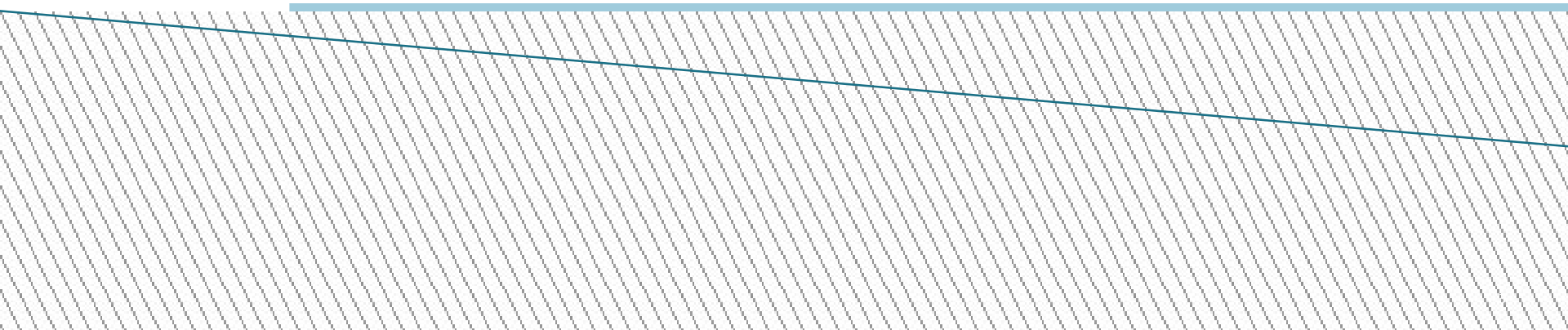
Nature of Control in Organizations

Steps in the Control Process

Financial Controls

Managing Control in Organizations

# Controlling



# What is Controlling

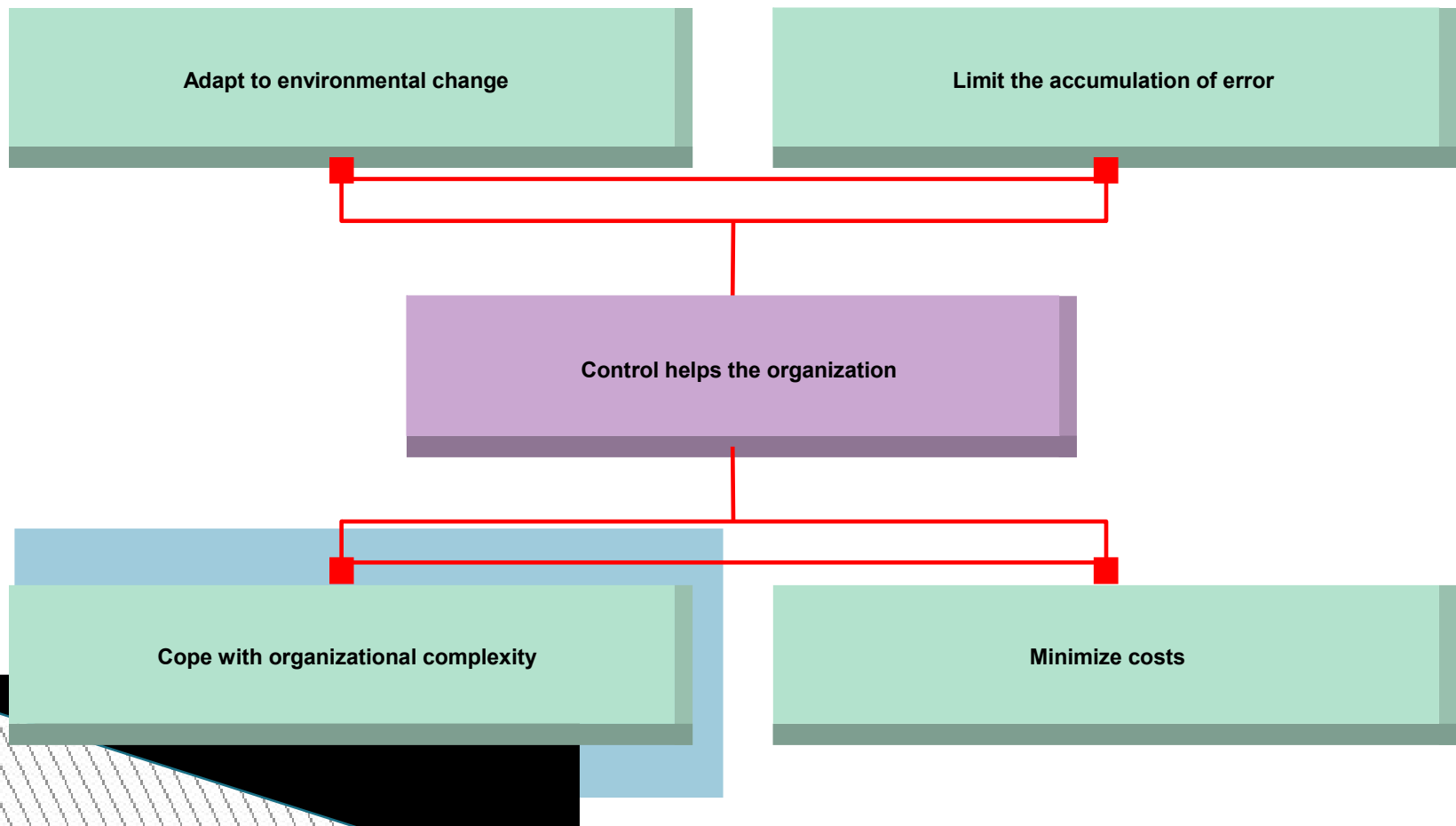
The measurement and correction of performance in order to make sure that enterprise objectives and the plans devised to attain them are accomplished

“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.”.

# The Nature of Control in Organizations

## ▸ The Purpose of Control

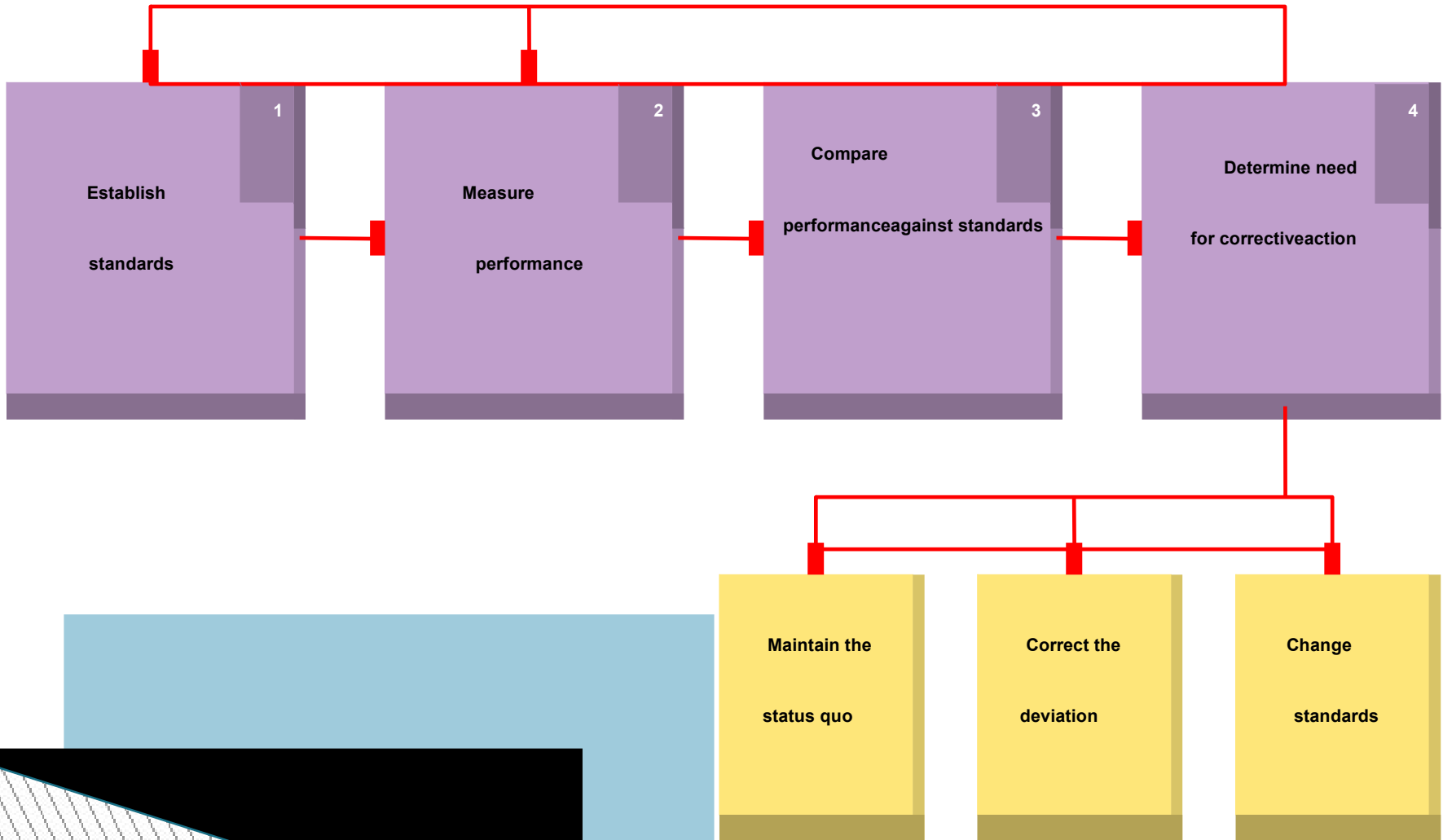
- Control is one of the basic management functions. The control function, in turn, has four basic purposes.



# Areas of Control

- *Physical resources*—inventory management, quality control, and equipment control.
- *Human resources*—selection and placement, training and development, performance appraisal, and compensation.
- *Information resources*—sales and marketing forecasts, environmental analysis, public relations, production scheduling, and economic forecasting.
- *Financial resources*—managing capital funds and cash flow, collection and payment of debts.

# Steps in the Control Process



# Steps in the Control Process

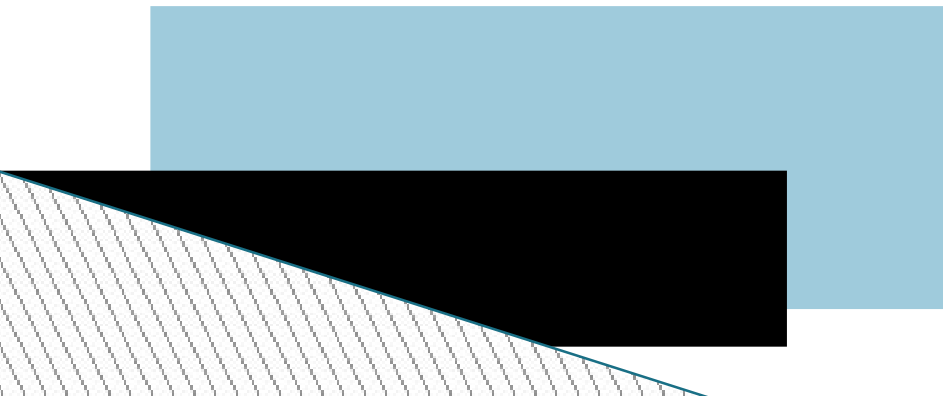
## ▸ Establish Standards

- ***Control standard***—a target against which subsequent performance will be compared.

- Control standards should be expressed in measurable terms.
- Control standards should be consistent with organizational goals.
- Control standards should be identifiable indicators of performance.

- Measure Performance

- Performance measurement is a constant, ongoing process.
- Performance measures must be valid indicators (e.g., sales, costs, units produced) of performance.





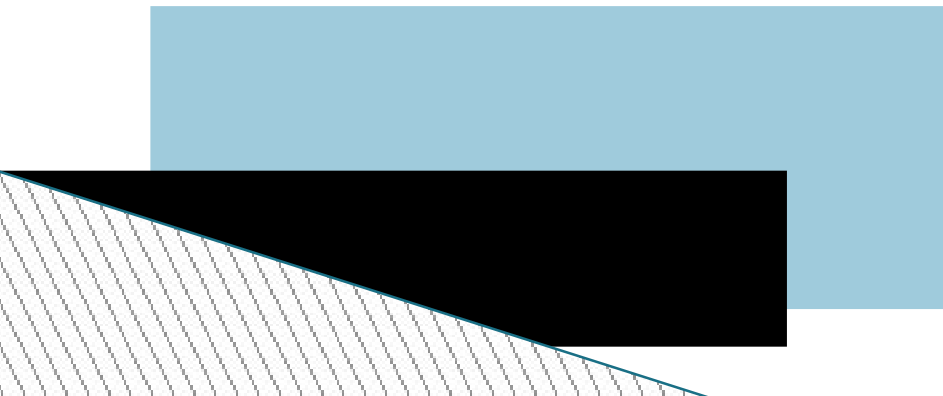
# Steps in the Control Process

## ▸ Compare Performance Against Standards

- Define what is a permissible deviation from the performance standard.
- Utilize the appropriate timetable for measurement.

## ▸ Determine the Need for Corrective Action

- Maintain the status quo (do nothing).
- Correct the deviation to bring operations into compliance with the standard.
- Change the standard if it was set too high or too low.



# Types of Control

## Feedforward control

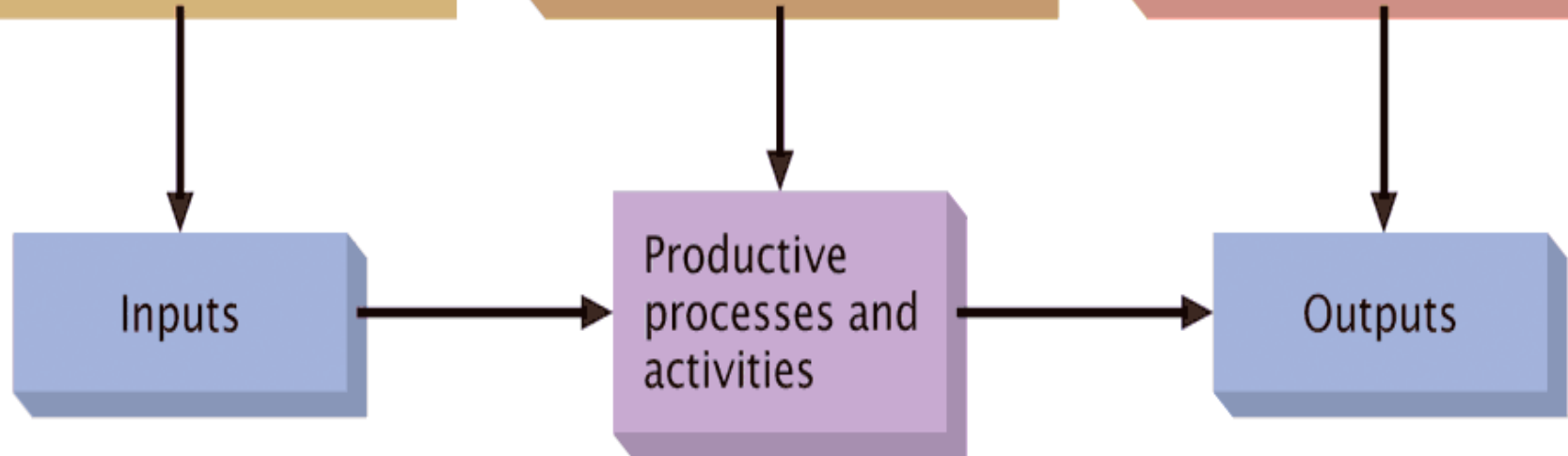
- Monitoring inputs
- Anticipating and preventing problems

## Concurrent control

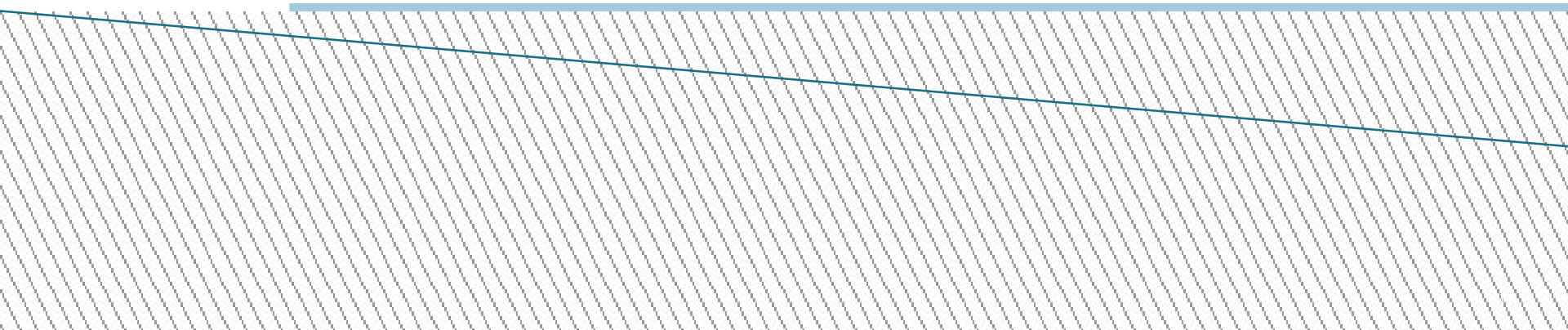
- Monitoring processes
- Adjusting ongoing activities

## Feedback control

- Monitoring products
- Learning from past mistakes



# Financial Controls



# Financial Control

- Control of financial resources (i.e., revenues, shareholder investment) as they flow into the organization, are held by the organization (i.e., working capital, retained earnings), and flow out of the organization (i.e., payment of expenses).
  
- Budgetary Control
  - Budgets may be established at any organizational level.
  - Budgets are typically for one year or less.
  - Budgets may be expressed in financial terms, units of output, or other quantifiable factors.
  - Budgets serve four purposes:
    - Help managers coordinate resources and projects.
    - Help define the established standards for control.
    - Provide guidelines about the organization's resources and expectations.
    - Enable the organization to evaluate the performance of managers and organizational units.

# Type of Budgets

## Type of Budget

## What the budget shows

### Financial Budget

### Sources and uses of cash

– Cash flow/Cash Budget

All sources of cash income and cash expenses on a daily/ weekly/ monthly basis

– Capital Expenditure Budget

Cost of major assets – land/ machinery/ new plant etc

– Balance Sheet budget

Forecast of the organization's assets and liabilities in the event that all other budgets are met

### Operating Budget

### Planned operations in financial terms

– Sales/Revenue Budget

Income the organization expects to receive from normal operations

– Expense Budget

Anticipated expenses for the organization

– Profit budget

Anticipated difference between Sales/ Revenue and Expenses

# Type of Budgets

Type of Budget

What the budget shows

Non Monetary Budgets

Planned Operations in non financial terms

– Labor Budget

Hours of direct labor available for use

– Space Budget

Square feet available for various functions

– Production Budget

No. of units to be produced during the coming time period

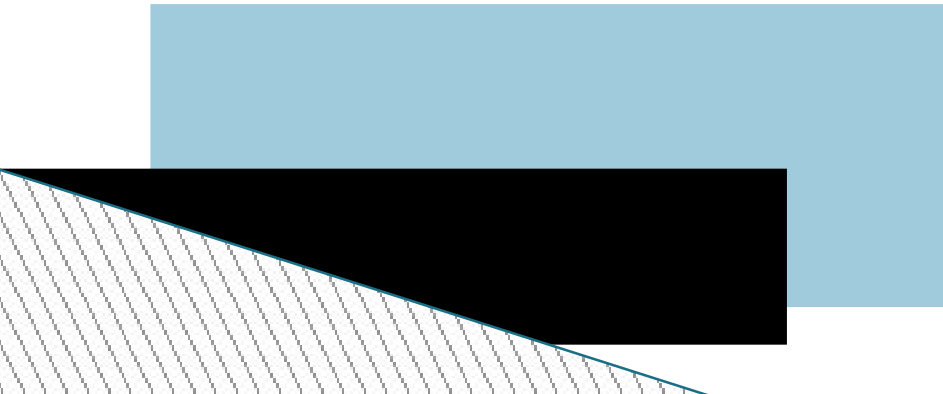
# Strengths and Weaknesses of Budgeting

## Strengths

- Budgets facilitate effective operational controls.
- Budgets facilitate coordination and communication between departments.
- Budgets establish records of organizational performance, which can enhance planning.

## Weaknesses

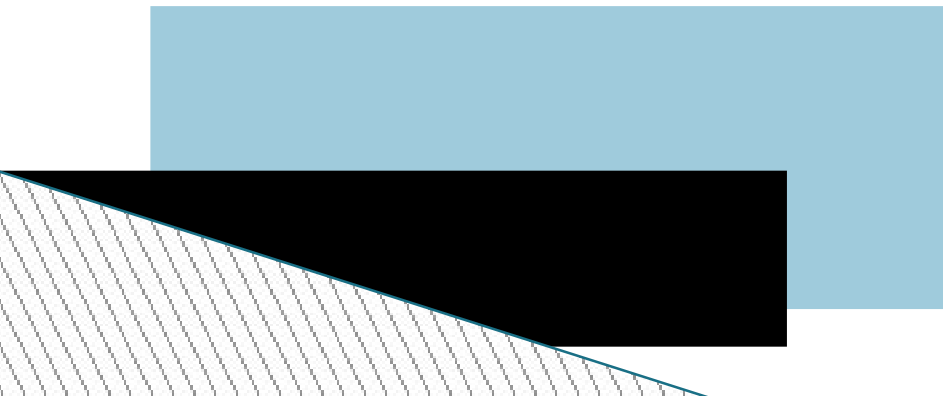
- Budgets can hamper operations if applied too rigidly.
- Budgets can be time consuming to develop.
- Budgets can limit innovation and change.



# Other Tools of Financial Control

## ▸ Financial Statements

- Financial statement is a profile of some aspect of an organization's financial circumstances.
- Balance sheet
  - A listing of assets (current and fixed), liabilities (short- and long-term), and stockholders' equity at a specific point in time (typically, year-ending) that summarizes the financial condition of the organization.
- Incomestatement
  - Summary of financial performance—revenues less expenses as net income (i.e., profit or loss)—over a period of time, usually one year.





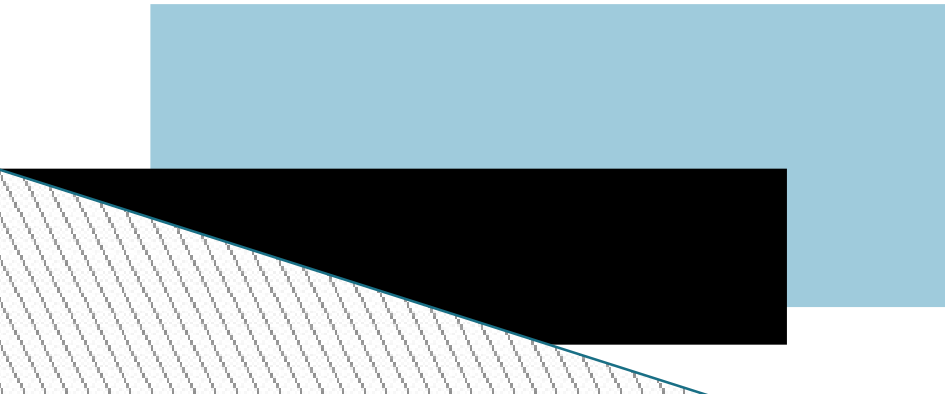
# Other Tools of Financial Control

## ▸ Ratio Analysis

- The calculation of one or more financial ratios to assess some aspect of the organization's financial health.

## ▸ Financial Audits

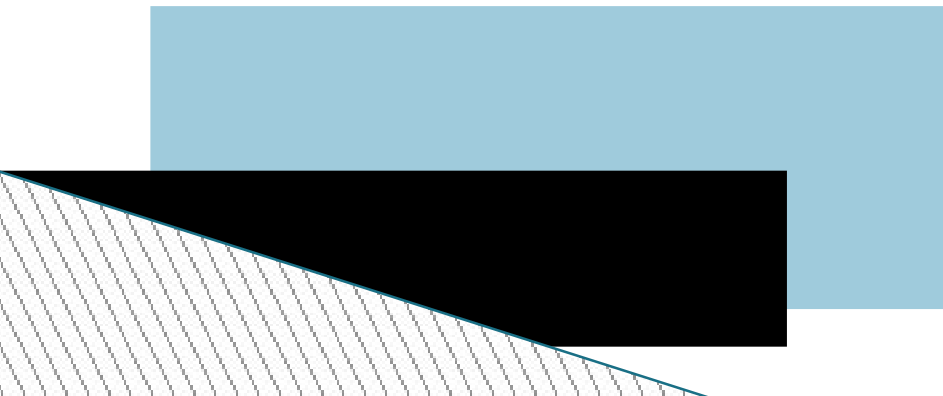
- Audit—an independent appraisal of an organization's accounting, financial, and operational systems.
  - **External audits**—financial appraisals conducted by experts who are not employees of the organization to verify to external parties that the organization's financial and accounting procedures are legal and proper.
  - **Internal audits**—appraisals conducted by employees of the organization to determine the accuracy, efficiency, and appropriateness of financial and accounting procedures.



# Managing Control in Organizations

## Characteristics of Effective Control

- Integration with Planning
  - The more explicitly and precisely control is linked to planning, the more effective the control system.
- Flexibility
  - The control system must be flexible enough to accommodate change.
- Accuracy
  - Inaccurate information results in bad decision making and inappropriate managerial actions.
- Timeliness
  - A control system should provide information as often as necessary.
- Objectivity
  - A control system must be free from bias and distortion.



# Managing Control in Organizations

## ▸ Resistance to Control

### ◦ Over-control

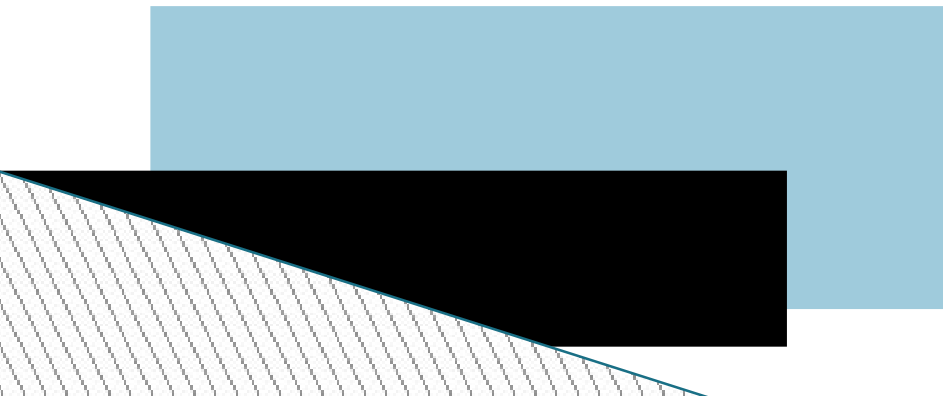
- Trying to control too many details becomes problematic when control affects employee behavior and employees perceive control attempts as unreasonable.

### ◦ Inappropriate Focus

- The control system may be too narrow or it may focus too much on quantifiable variables and leave no room for analysis or interpretation.

### ◦ Too much accountability

- Efficient controls are resisted by poorly performing employees.



# Overcoming Resistance to Control

- Resistance to control can be overcome by:
    - Designing effective controls that are properly integrated with organizational planning and aligned with organizational goals and standards.
    - Creating controls that are flexible, accurate, timely, and objective.
    - Avoiding over-control in the implementation of controls.
    - Guarding against creating controls that reward inefficiencies.
    - Encouraging employee participation in the planning and implementing of control systems.
    - Developing a system of checks and balances in the control systems through the use of multiple standards and information systems that allow the organization to verify the
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