CHAPTER 5 CONTROLLING

•*As an End Function of Management*

Introduction

Management control can be viewed as a process to check if the actual working of the organization is as per the original plan. Robert Simons describes management control as a feedback process of planning, setting targets, monitoring progress and taking corrective action to ensure that the goals are achieved. Thus, controlling is a dynamic and key function very closely knit with other management functions of planning, organizing and directing. Scholars such as Kelly (2009) defines control as guaranteeing that plans are accurately executed and assuring that the firm operates as per plan whereas Drury (2013) defines it as a process to ensure that the organization's functions conform to its plans and the organizational objectives are met. According to Koonts O'Donnel, "*controlling is the measurement of accomplishment against the standards and the correction of deviation to assure attainment of objectives according to plan*."

There are several features of controlling. Firstly, control is positive and necessary function to identify the areas of weakness, the person behind the weakness and to suggest corrective action. Thus, control guarantees that there is minimum deviation between planned and actual performance of the organization. Second, control is a continuous and ongoing function and not a one-time action. One can draw an analogy with using a navigation system. Just like the navigator that continuously monitor the directions and locations to check the right route, the manager has to constantly confirm whether actual performance is as per the planned performance. Thirdly, though control deals with assessing past performance, it is forward looking as it tries to offer remedial action to improve future performance. Fourthly, control is an integral part of management and managers at every level have to carry out this function. Fifthly, control is a dynamic function. After the plans are implemented, many changes can take place in the internal and/or the external business environment which may acts as roadblocks or even change the planned goals itself. A well designed control system evaluates these changes and realigns the organization. Lastly, planning and control go hand in hand. Planning determines the goals and sets standards whereas control assures the goals are achieved.

Reflection

a. Management Control and Its Significance

Control is an integral management function. All other management goals cannot be achieved without control. The significance of an effective control system depends on how the management implements and executes its strategic plan. All organizations has its own control system. One of the effective control system is the attainment of targets. An effective control system helps to attain the planned targets. In case of impediments, remedial measures are undertaken to see that the intended targets are aligned to the actual goals. Successful execution of plans depends to a large extent on effectiveness of the control process.

Controlling ensures proper execution of plans. Discipline among employees is another thing that management executes. The managers may order insufficient or incorrect inputs. An effective control and monitoring mechanism will avoid such problems. Facilitation and decentralization and co-ordination helps to decentralize authority and power. Proper coordination among departments is also ensured as all departmental activities have to attain a single objective. Lastly, mitigating risk and uncertainty is the control system that helps to manage organization’s uncertainty and risks.

b. The Management Control Process and Techniques

The Control Process. Every organization follows steps in controlling and managing the entire organization and its people. These four steps include: establishing standards, measuring actual performance, comparing actual performance with standard performance, and taking corrective actions. In the planning process the targets or objectives to be attained are clearly defined and quantified. These targets acts as benchmarks or standards against which the actual performance will be compared.

The actual performance is measured as per the predetermined standards. While measuring performance, the manager has to objectively check if all aspects of the job are complete. The actual performance is compared with standard performance to check for deviations, if any. If actual and targeted performance are the same, it means the organization is progressing on the planned path. Corrective actions will be undertaken if there are large variations between actual and planned performance.

For a control process to be effective, accurate information on the measurable and non-measurable aspects should be made available. Further, to undertake corrective action the information must be made available at the right time and must be objective. The control process should focus on those points where deviations are most likely to occur. Again control is most desired in areas where deviations would result in costs to the organization. The control process needs to be economically realistic in the sense that the cost of implementing the process should be lower than the benefits derived from it. The standards set should be realistic and compatible with organization's workflow. The process also needs to flexible enough to take remedial action or advantage of favorable changes.

Although all good control processes work on similar lines, some variations are noted. These variations arise due to the degree of outside control that is required, time perspective and whether it's a formal or informal management process.

Cybernetic control processes are self-regulating and do not require any monitoring.

Non-Cybernetic control processes require external supervision, for example the quality control department in a manufacturing firm.

Feed forward or pre control process is designed before the activity commences (Bateman & Snell, 2012). It includes inputs in the appropriate quality, formulated and implemented policies, and recruited manpower with requisite skills. These control measures aim to prevent a problem before it arises. An example of feed forward control will be the purchase of safety equipment prior to commencement of construction at the office site.

Concurrent control measures are implemented alongside the activity. For example, inspection of activity sites to see that instructions and organizational standards are followed. Concurrent control is called as screening control as it determines whether the activity should be stopped, modified or can continue.

Feedback control occurs after the completion of the activity. This type of control assesses if the activity was completed on time and within the allocated budget. Thus, the firm can continue with its good practices. Usually managers formulate policies and regulations such as requiring sales projections in order to control.

Market control revolves around a yardstick provided by an external agency such as customer feedback regarding product satisfaction. Changes are implemented based on the survey results.

Clan control is an indirect control mechanism arising from the social values and belief system.

Control Techniques. There are various techniques whereby managerial control are exercised. This include: financial audit, budgetary control, break even analysis, PERT and CPM Techniques, MIS, computerized control, and return of investment.

Financial control can be exercised through audits. *Audit* helps to detect whether the financial statements prepared by the firm are true and fair. External auditors are appointed by the shareholders which public responsibility towards the shareholders, Board of directors and society at large. Financial ratios such as liquidity ratio, profitability ratio, debt ratio to name a few depict the health of the organization.

Budgetary control is a technique of comparing actual results with the budgeted targets. Budget is a statement of the company's estimated expenses and earnings during a financial year. A firm prepares various types of budgets such as sales budget, production budget, cash budget, master budget etc. In case of variation, the responsible authorities can either exercise control or revise the initial budget.

The *break-even point* is a point of no profit and no loss and hence act as a control device and a measure of the firm's performance.

PERT and CPM are techniques aimed to reduce the total cost or time taken to complete the project. A project is a series of sequential activities and for timely completion within the budgeted cost all activities have to be completed as per schedule. This is achieved by identifying the activities whose delay will cause the entire project to delay.

Management information system is a well-known control device. It is a framework whereby information is collected, processed and visualized. Through MIS senior level managers can delegate authority to subordinates without losing control.

Computerized control is used by many organizations monitor employees access to databases, their computer usage to measure and control performance.

Return on Investment, a measure of profitability, is widely used to compare present and past performance and inter firm financial performance.

c. Impact of Management Control on Employees

Control can have positive and negative impact on employees. Control provides clarity of goals and expectations thus improving performance. Concurrent control provides constructive feedback which helps in improving productivity and efficiency. However, excessive controls involve documentation and paper work which leads to excessive costs. When goals are unrealistic, employees may resort to short cuts in order to save their jobs but narrow goals may inhibit employee's creativity. Employees too feel a need for personal control. As such, the organization can formulate rules and standard operating procedures which all employees have to follow. The challenge for the organization lies in striking the right balance between personal and organizational control.

d. Learnings on the Control System in the New Normal

The new normal is the organization's response to changes brought about the global pandemic (Raghavan et al., 2021). COVID-19 brought along with it number of challenges for organizations. Economies declared lock downs and new regulations were imposed. To curb the spread of the disease, remote working and hybrid working hours were imposed. This posed as a challenge for controlling employees especially for the micro managers. Micro managers, who used to supervise and control the day-to-day activities, had to learn to trust and give greater freedom to their subordinates. The employees used to the concept of working during office timings had to work in remote destinations, beyond the working hours and often during weekends. According to Kim et al. (2021), result based management and efforts at getting employees trust helped in a smooth transistion.

Another concern with regards to control was the issue of cyber security and sensitive data and information breaches. With employees engaged in telework, the three fundamentals of cyber risk-confidentiality, integrity and availability of data were difficult to monitor. Limited cyber literacy meant that malicious software could be executed by the employees. Organizations controlled these risks by allowing participants in shared platform meetings only through invitations. The use of remote access or VPNs to log into the organization's database was banned. Email messages with confidential data must be encrypted (Martin & Mac Donnell, 2012). A study by Galić et al. (2021) found that management which could provide authentic inter department data at the right time was in better control of its operations.

In the new normal, telework and digital adoption will be the order of the day. In the post pandemic world without social distancing regulations and lock downs, the workplace modifications in relation to hybrid working hours, telework and digital adoption are here to stay. The organization benefits from the flexible working hours in the form of savings on rent, electricity and transportation. On the other hand, employees can take care of dependents and save on transportation costs and time. Flexible working hours have inculcated personal control among employees who tend to be more goal oriented which improves productivity. Thus, the new normal has seen shift from micro management to more of personal control. In the new normal control of cyber security risks, data thefts, threats of malicious software, inadequate computer literacy implies that control has shifted to a new dimension.

Conclusion

Management control can be viewed as a process to check if the actual working of the organization is as per the original plan. During the pandemic lock downs, health risks, digital adoption and hybrid working hours changed the dimensions of controlling. In the new normal, sustainable hybrid working hours, telework and digital transformation policies may be adopted. Organizations have to adopt employee centric control measures. The management control system has to adapt to its competitive advantage.

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