SYSTEM AND PROCESS OF CONTROLLING

SYSTEM OF CONTROLLING

A control system is a systematic method used by managers to monitor performance, compare it with standards, and take corrective action.

Main elements:



Standards: Set the expected level of performance.

Measurement: Collect information about actual performance.

Comparison: Compare actual performance with the standard.

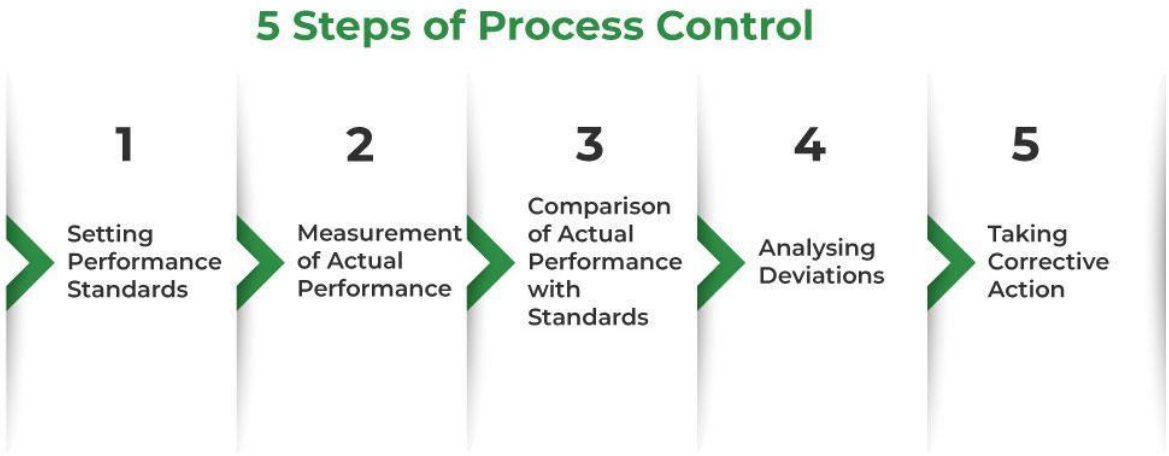
Deviation: Identify the difference between planned and actual performance.

Corrective Action: Take necessary steps to correct the deviation.

Feedback: Use the results to improve future planning and performance

PROCESS OF CONTROLLING

Controlling means comparing the actual performance of an organisation with the planned performance and taking corrective actions if the actual performance does not match the planned performance. Controlling cannot prevent the deviation in actual and planned performance; however, it can minimise the deviations by taking corrective actions and decisions that can reduce their recurrence.



Different steps involved in the process of controlling are as follows:

1. Setting Performance Standards

The first step in the controlling process is establishing standards of performance to measure actual organizational performance. Standards must be clearly communicated, attainable, understandable, and realistic. They can be set in two ways:

Quantitative Terms: Expressed in exact numbers, such as units produced, revenue earned, or costs incurred. They make comparison easy and precise.

Qualitative Terms: Expressed in non-numerical aspects, such as customer service time or employee motivation levels, which should also be set for easy measurement.

Flexibility: Since the business environment is dynamic and constantly changing, established standards must be flexible enough to adapt when conditions change.

2. Measurement of Actual Performance

Once standards are set, the second step is measuring actual performance reliably and objectively.

Techniques & Timing: Performance can be measured through sample checking or personal observation, usually at the end of a period, but sometimes during the process (e.g., checking appliance parts before assembly to avoid defects).

Balanced Focus: Organizations must consider both quantitative and qualitative aspects. Focusing only on quantitative goals (like lowering costs) while ignoring quality (degrading product quality) can save money short-term but lose customers long-term. Different departments measure performance differently (e.g., production by units produced, sales by units sold or customer satisfaction).

3. Comparison of Actual Performance with Standards

The third step compares actual performance against established standards to determine deviations (variances).

- Quantitative standards make comparisons easy without subjective evaluation.
- If actual performance matches the standards, the controlling process ends here because everything is under control.
- If performance does not match the standards, the process proceeds to the final two steps.

4. Analysing Deviations

Because actual performance and standards rarely match perfectly, organizations must analyze deviations by setting an acceptable range of variation and focusing on significant ones using two key tools:

A) Critical Point Control (CPC): Focuses specifically on **Key Result Areas (KRAs)** that are vital to overall performance (e.g., focusing on a 2% production cost deviation rather than a 15% stationery expense deviation), since monitoring every activity equally is inefficient.

B) Management by Exception (MBE): Based on the rule *"If you try to control everything, you may end up controlling nothing."* Managers ignore minor variations within an acceptable range (e.g., a 2% production cost variance when the limit is 5%) and focus only on significant deviations exceeding that limit (e.g., a 10% variance requiring immediate attention).

Advantages: Saves time and effort, utilizes managerial talent efficiently, pinpoints critical problems instantly, and enables delegation of authority which boosts employee morale.

Root Cause Analysis: Organizations must also identify why the deviation happened (whether due to faulty processes, unrealistic standards, or environmental shifts) to apply the right fix.

5. Taking Corrective Action

The final step is taking corrective action. If deviations fall within acceptable limits, no action is needed. However, if deviations exceed limits in key areas, immediate managerial intervention is required.

Customized Solutions: The corrective action depends entirely on the root cause. For example, if performance dropped due to a lack of resources, managers procure them; if it dropped due to a lack of employee skills, managers provide targeted training.

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