Collegedunia NCERT Notes

The Ultimate NCERT Revision Guide for Class 12 Business Studies

Chapter 8: Controlling

What this chapter covers: the meaning, importance and limitations of controlling; the inseparable relationship between planning and controlling; the five-step controlling process (set standards, measure performance, compare, analyse deviations, take corrective action); the principles of critical point control and management by exception; and the traditional and modern techniques of managerial control. Session 2026-27.

Contents

1. Meaning of Controlling

Core Definition

Controlling is the management function of *ensuring that actual activities conform to planned activities*. It is the fifth and final function in Henri Fayol's classical scheme, and it closes the loop between what was planned (planning) and what actually happened (action).

Controlling is exercised at every level – from the CEO comparing quarterly results to the master plan, down to the supervisor checking daily output against the daily target. It is not a one-shot exercise; it is woven into every cycle of *plan* $\rightarrow$ *do* $\rightarrow$ *check* $\rightarrow$ *act*.

Memory Aid – Five C's of Controlling

Compare actual with standards · **C**alculate deviation · **C**ategorise (significant or routine) · **C**orrect cause · **C**lose loop (feed back to next plan).

2. Features of Controlling

1. **Goal-oriented.** Directed at the achievement of organisational goals; not at fault-finding.
2. **Pervasive.** Exercised at *every level* (top, middle, supervisory) and in *every department* (production, marketing, finance, HR).
3. **Continuous.** Not a one-time activity – it goes on round the clock as long as the organisation operates.
4. **Forward-looking as well as backward-looking.** It *starts* by looking back at what happened, but *ends* by looking forward – feeding the findings into the next plan.
5. **Both managerial process and technique.** It is a function (process) and also a body of tools (techniques like BEP, ROI, ratio analysis).

3. Importance of Controlling

1. **Accomplishing organisational goals.** Measures progress and triggers corrective action when actual falls short.
2. **Judging accuracy of standards.** Reveals whether the standards themselves are realistic; consistently exceeded or missed standards are revised.
3. **Making efficient use of resources.** Reduces waste of materials, time, money and effort by comparing actual usage against planned usage.
4. **Improving employee motivation.** Fair feedback that recognises good performance and provides constructive correction lifts morale.
5. **Ensuring order and discipline.** Holds every employee accountable to clear, fair standards.
6. **Facilitating coordination in action.** Each department's performance is checked against the master plan and deviations corrected before they pull others out of sync.

Memory Aid – G-S-R-M-D-C

Goals · **S**tandards check · **R**esources · **M**otivation · **D**iscipline · **C**oordination – 6 reasons controlling matters.

4. Limitations of Controlling

1. **Difficulty in setting quantitative standards.** For qualitative areas – morale, brand image, organisational climate, social responsibility – precise standards cannot be set and comparison becomes subjective.
2. **Little control over external factors.** Government policy, technological change, competitor moves and natural calamities are outside the control system's reach.
3. **Resistance from employees.** Workers may view control as policing and may fudge data, work to rule or refuse to report problems, making the data unreliable.
4. **Costly affair.** A control system needs measurement, reporting, review and corrective infrastructure – expensive, especially for small firms.

> **CBSE Spotter**
>
> "*Cannot measure morale precisely*" ⇒ **difficulty in setting quantitative standards**. "*Government banned the product*" ⇒ **little control over external factors**.

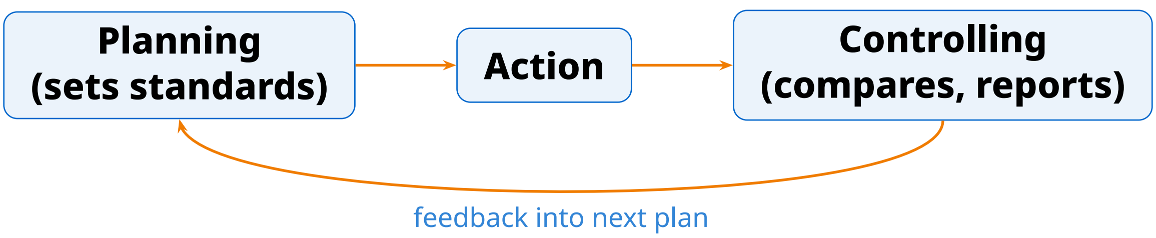
5. Relationship between Planning and Controlling

> **The Inseparable Twins**
>
> **Planning** and **Controlling** are the *inseparable twins of management*. Planning provides the *standards* against which controlling measures actual performance, and controlling provides the *feedback* that makes the next planning cycle realistic. Each is meaningless without the other.

5.1 Two-way Dependence

- *Planning → Controlling:* No plan ⇒ no standards ⇒ no controlling.
- *Controlling → Planning:* No controlling ⇒ no feedback ⇒ next plan will be no better than the last.

5.2 The Feedback Loop



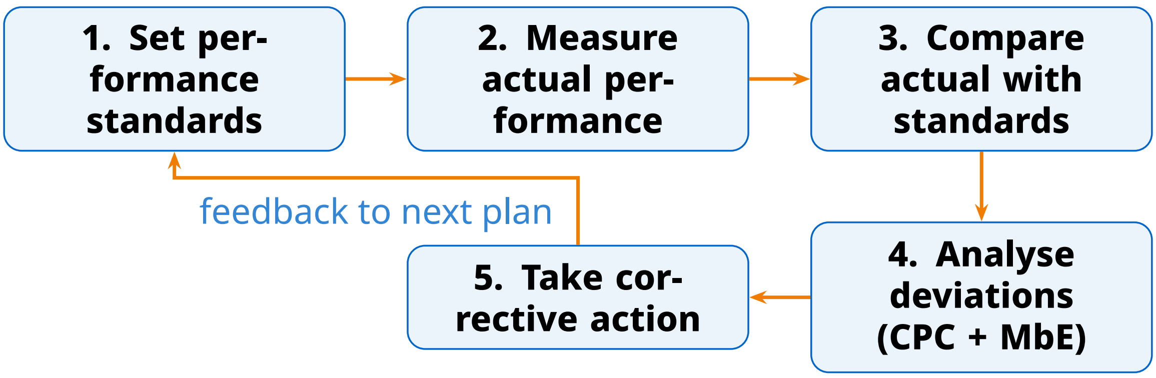
5.3 Planning vs Controlling – Comparison

Basis	Planning	Controlling
Meaning	Deciding in advance what to do	Checking that what was decided is being done
Nature	Forward-looking	Backward + forward-looking
Function order	First function	Last function
Information needed	Forecasts and assumptions	Actual performance data
Output	Standards, goals, budgets	Deviation reports, corrective action
Free will	Can start without controlling info	Cannot start without a plan

6. Controlling Process (Five Steps)

Five-Step Cycle

1. Set standards → 2. Measure performance → 3. Compare → 4. Analyse deviations → 5. Take corrective action (and feed lessons back to the next plan).



6.1 Step 1 – Setting Performance Standards

Standards are derived from the plan. Good standards are *specific, measurable, achievable, relevant and time-bound (SMART)*.

Quantitative standards: units produced, rupees of cost, hours taken, percentage defects, ROI %, debtor days.
Qualitative standards: customer satisfaction, employee morale, brand image – harder to measure but still needed.

6.2 Step 2 – Measurement of Actual Performance

Capture actual performance in the *same units* as the standard. Methods:

- Personal observation (factory floor visit).
- Sample checking.
- Statistical reports (daily, weekly, monthly).
- Ratio analysis, ROI, BEP, performance reports.

6.3 Step 3 – Comparison

Deviation Formula

$$\text{Deviation} = \text{Actual Performance} - \text{Standard Performance}$$

Positive deviation = actual exceeds standard (often welcome). Negative deviation = actual falls short (triggers attention).

6.4 Step 4 – Analysing Deviations

Two principles guide the analysis:

Critical Point Control + Management by Exception

Critical Point Control: focus on *key result areas* (KRAs) – the few activities on which organisational success depends.

Management by Exception: alert the manager only on *significant* deviations (outside the permitted tolerance). Routine, within-range deviations are ignored.

For deviations that do need attention, identify the *cause*: defective material, machine breakdown, lack of training, faulty standard, external disruption, employee de-motivation.

6.5 Step 5 – Corrective Action

The final step. If the deviation is within the acceptable range: no action. If it goes beyond the acceptable range – especially in important areas – design and implement a remedy and verify that it has restored performance.

Examples: replace faulty material; repair machine; re-train employees; assign additional workers / sanction overtime for projects running behind schedule; revise the standard itself if it was unrealistic.

Lessons from corrective action feed back into the *next* planning cycle, closing the planning $\rightarrow$ controlling loop.

7. Techniques of Managerial Control

7.1 Traditional Techniques

1. **Personal observation.** Direct, on-the-spot review by the manager. Slow and subjective, but irreplaceable for the human dimension.
2. **Statistical reports.** Numerical summaries, averages, percentages, ratios, trends, graphs.
3. **Breakeven analysis.** The sales volume at which total cost equals total revenue:
$$\text{BEP (units)} = \frac{\text{Fixed Cost}}{\text{Contribution per unit}}.$$
4. **Budgetary control.** Quantitative plans (sales, production, cash, master budget) prepared in advance and compared against actual; variances investigated.

7.2 Modern Techniques

1. **Return on Investment (ROI).** The overall yardstick of profitability:
$$\text{ROI} = \frac{\text{Net Income (before interest and tax)}}{\text{Total Investment}} \times 100.$$
2. **Ratio analysis.** Liquidity, solvency, profitability and activity ratios that summarise financial performance.
3. **Responsibility accounting.** The organisation is divided into responsibility centres – cost centres, revenue centres, profit centres, investment centres – each head accountable for what is controllable at that level.
4. **Management audit.** Systematic appraisal of the overall performance of management itself.
5. **PERT and CPM.** Network techniques for project planning and control. PERT = probabilistic time estimates; CPM = deterministic. Both identify the *critical path*.
6. **Management Information System (MIS).** A computer-based system that supplies managers with timely, accurate, relevant information for decision-making.

Why Indian Banks Use MIS Dashboards

Every branch manager's screen shows real-time NPA (non-performing asset) ratios, daily deposit-disbursement variance and per-cluster ROI. Deviations beyond a threshold escalate automatically to the zonal office – a textbook implementation of management by exception powered by MIS.

8. Quick Recap – Exam-Ready Summary

10-Point Cheat Sheet

1. Controlling = ensuring actual conforms to planned.
2. Five features: goal-oriented, pervasive, continuous, both forward and backward, process + techniques.
3. Six points of importance: G-S-R-M-D-C (goals, standards check, resources, motivation, discipline, coordination).
4. Four limitations: qualitative gap, external factors, employee resistance, cost.
5. Planning and controlling are inseparable twins – plan sets standards, control feeds back.
6. Five-step process: Set $\rightarrow$ Measure $\rightarrow$ Compare $\rightarrow$ Analyse $\rightarrow$ Correct (feeds back into next plan).
7. Deviation = Actual $-$ Standard.
8. Critical Point Control = focus on KRAs; Management by Exception = only big deviations alert the manager.
9. Traditional techniques (4): observation, statistical reports, BEP, budgetary control.
10. Modern techniques (6): ROI, ratio analysis, responsibility accounting, audit, PERT/CPM, MIS.

CBSE Spotter Words

"Constant and continuous check" $\Rightarrow$ **Continuous** feature. "All employees / all departments" $\Rightarrow$ **Pervasive**. "10-unit shortfall by one worker" $\Rightarrow$ **Management by Exception** – do not penalise. "Difference between standard and actual" $\Rightarrow$ **Deviation**.

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