

## 1. Details of Module and its structure

Module Detail	
Subject Name	Business Studies
Course Name	Business Studies 03 (Class XII, Semester - 1)
Module Name/Title	Relationship between Planning and Controlling: Part – 2
Module Id	Lebs_10802
Pre-requisites	Knowledge about Relationship between Planning and Controlling
Objectives	After going through this lesson, the learners will be able to understand the following: <ul style="list-style-type: none"><li>• Controlling Process</li><li>• Measurement of performance</li><li>• Relationship between Planning and Controlling</li><li>• Steps in the Controlling Process</li></ul>
Keywords	Setting Performance Standards, Measurement of Actual Performance, Analysing Deviations, Critical Point Control, Defective Material, Defective Machinery, Obsolete Machinery, Defective Process

## 2. Development team

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Children, In this chapter you have learnt about the last function of management, 'controlling'. While learning the definition of controlling and going through its importance you must have felt that controlling is actually a step forward to planning. While planning sets the standards to achieve, controlling ensures that the set standards are achieved as planned. This clearly means that planning and controlling are very closely related to each other. The success of all other functions depends on how well the planning and controlling functions are performed.

Let us now understand the relationship between planning and controlling

Control presupposes the existence of certain standards set by planning which act as the basis of controlling. Controlling monitors the progress and measures the effectiveness of plans, checks for deviations if any, initiates corrective and preventive actions to ensure that the planned results are accomplished. Therefore, controlling begins as soon as the plans become operational.

Following points explain the relationship between planning and controlling.

### **1) Planning and controlling are inseparable twins of management:**

A system of control presupposes the existence of certain standards. These standards of performance which serve as the basis of controlling are provided by planning. Once a plan becomes operational, controlling is necessary to monitor the progress, measure it, discover deviations and initiate corrective measures to ensure that events conform to plans. Thus, planning without controlling is meaningless. Similarly, controlling is blind without planning. If the standards are not set in advance, managers have nothing to control. When there is no plan, there is no basis of controlling. Planning is clearly a prerequisite for controlling. It is utterly foolish to think that controlling could be accomplished without planning.

### **2) Both planning and controlling are interrelated and interdependent:**

- i. Controlling is always based on planning. Without planning there is no basis for controlling as we have to compare actual performance with planned performance. So, planning is clearly a prerequisite for controlling.
- ii. Planning without controlling is useless. Once a plan becomes operational. Controlling is necessary to monitor the progress, measures to ensure that events conform to plans. Thus, planning without controlling is meaningless. So, it is rightly said that *planning without control is meaningless and control without planning is blind.*

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### **3) Planning is prescriptive and controlling is evaluative:**

- i. Planning is a prescriptive process as it prescribes the most appropriate course of action to achieve the objectives.
- ii. On the other hand, controlling is an evaluative process as it evaluates whether planned decisions have been translated into desired action. So, control process starts where the planning leaves off.

### **4) Both are backward looking as well as forward looking functions:**

It is often said that planning is looking ahead and controlling is looking back. However, the statement is only partially correct.

- i. Planning is viewed as a forward-looking approach as plans are prepared for future and are based on forecasts about future conditions.
- ii. Planning is also a backward-looking function as plans are guided by the past experiences.
- iii. Controlling is considered a backward-looking function as it measures and compares actual performance with standards fixed in the past.
- iv. Controlling is also a forward-looking function as it aims to improve future performance, based on experience gained in the past.
- v. So, planning and controlling are both forward and backward looking functions.

### **Conclusion**

Thus, planning and controlling are interrelated and reinforce each other as:

- ✓ Planning based on facts makes controlling easier and effective; and
- ✓ Controlling improves future planning by providing information derived from the past experience.

Therefore, planning is a prerequisite for controlling and the two are inseparable twins of management.

Children, while reading about planning and controlling you must have realized that planning is always for future and controlling is in the present but it evaluates the activities planned in the past. So, can we say that planning is “looking ahead” and controlling is “looking back”?

Let us review and find out if this is true. In my opinion planning and controlling both look ahead and look back simultaneously. The following points will explain how the statement ‘planning is looking ahead and controlling is looking back’ is correct only partially:

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Plans are prepared for the future and are based on forecasts of the future conditions. Therefore, it is a forward looking function.

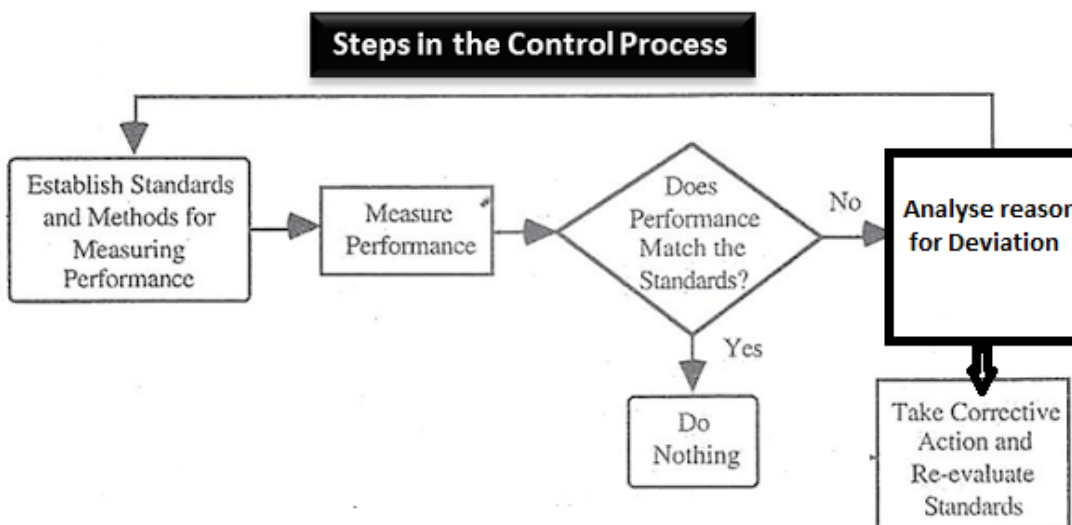
Controlling is comparing and evaluating activities done in the past to ensure there are no deviations from the standards. Therefore, it is a backward looking function.

Planning is guided by the experiences in the past, the corrective actions suggested by controlling helps to improve plans for the future. Therefore, it is a backward looking function.

Controlling suggests corrective or preventive actions to revise the plans considering the changes in business environment in the near future. Therefore, it is forward looking function.

### Steps in the Controlling Process

Controlling is a systematic process involving the following steps.



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- i. Setting performance standards which are understandable, attainable and realistic. Controlling process begins with the establishment of standards.
- ii. Measurement of actual performance in an objective and reliable manner. It can be done using several techniques like personal observation, sample checking etc.
- iii. Comparison of actual performance with standards
- iv. Analysing deviations Some deviations in performance is expected in all activities. So, the next step in controlling process is to analyse the deviations.

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- v. Taking corrective action such comparison will reveal The final step is the controlling process is taking corrective actions. There is no need for corrective action, when the deviations are within acceptable limits.

\* Now I'll elaborate these points

**Step 1: Setting Performance Standards:** The first step in the controlling process is setting up of performance standards. Standards are the criteria against which actual performance would be measured. Thus, standards serve as benchmarks towards which an organisation strives to work. Standards can be set in both quantitative as well as qualitative terms.

**Quantitative terms:** Standards set in terms of cost to be incurred, revenue to be earned, product units to be produced and sold, time to be spent in performing a task and so on, all represents quantitative standards. Precisely expressed quantitative standards make comparisons easier and meaningful. At the time of setting standards, a manager should try to set standards in precise quantitative terms as this would make their comparison with actual performance much easier. For instance, reduction of defects from 10 in every 1,000 pieces produced to 5 in every 1,000 pieces produced by the end of the quarter.

Examples of quantitative standards are:

- 1) Standard cost to be included to produce a product. Mediline Ltd. Decided that they will import induction cookers from china at maximum price of \$12 each.
- 2) Price at which the product should be sold. Mediline Ltd. Informed its sales staff that the induction cookers will be sold at a minimum selling price of \$1500 each.
- 3) Number of units to be produced and sold. Mediline Ltd. Decided to import 10,000 pcs of induction cookers three months before Diwali.
- 4) Standard time to perform a specific task. Each worker must take maximum of 10 minutes to pack the product.

**Qualitative terms:** Sometimes standards may also be set in qualitative terms. These are the subjective standards set to improve performance if the organisation. Improving goodwill, Discipline among employees, Customer satisfaction and motivation level of employees are examples of qualitative standards.

However, whenever qualitative standards are set, an effort must be made to define them in a manner that would make their measurement easier. For instance, for improving customer

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satisfaction in a fast food chain having self-service, standards can be set in terms of time taken by a customer to wait for a table, time taken by him to place the order and time taken to collect the order.

It is important that standards should be flexible enough to be modified whenever required. Due to changes taking place in the internal and external business environment, standards may need some modification to be realistic in the changed business environment.

Example of Qualitative standards are:

- 1) Improve efficiency. All goods must be dispatched within 24 hours to maintain efficiency or production must not have more than 5% defective units.
- 2) Motivate employees. Managers sets targets for sales executives and announce financial and non-financial incentives for achieving set target.
- 3) Company will exchange goods if customers' report poor quality for more than 5% of goods supplied.

**Step 2: Measurement of Actual Performance:** Once performance standards are set, the next step is measurement of actual performance. Performance should be measured in an objective and reliable manner. There are several techniques for measurement of performance. These include personal observation, sample checking, performance reports, etc.

As far as possible, performance should be measured in the same units in which standards are set as this would make their comparison easier. It is generally believed that measurement should be done after the task is completed. However, wherever possible, measurement of work should be done during the performance.

For instance,

- 1) In case of assembling task, each part produced should be checked before assembling.
- 2) In a manufacturing plant, levels of gas particles in the air could be continuously monitored for safety.
- 3) Measurement of performance of an employee may require preparation of performance report by his superior.
- 4) Measurement of a company's performance may involve calculation of certain ratios like gross profit ratio, net profit ratio, return on investment, etc., at periodic intervals.
- 5) Progress of work in certain operating areas like marketing may be measured by considering the number of units sold, increase in market share etc.,

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- 6) Whereas, efficiency of production may be measured by counting the number of pieces produced and number of defective pieces in a batch.

**Techniques for measurement of performance:**

- 1) Personal observation: Measurement should be done continuously during performance. For example, in case of computer assembling each part used should be checked before assembling.
- 2) Sample checking: In small organisations, each piece produced may be checked to ensure quality specifications, but in a larger organisation, it may not be possible. So, certain pieces are checked at random for quality. This is called sample checking.
- 3) Performing reports: A superior prepares 'performance report' to measure performance of his employees.
- 4) Accounting ratios: Measurement of a company's performance involves calculation of certain ratios like gross profit, net profit ratio, return on investment, etc. at periodic intervals.

In small organisations, each piece produced may be checked to ensure that it conforms to quality specifications laid down for the product. However, this might not be possible in a large organisation. Thus, in large organisations, certain pieces are checked at random for quality. This is known as sample checking.

**Step 3: Comparing Actual Performance with Standards:** This step involves comparison of actual performance with the standard. Such comparison will reveal the deviation between actual and desired results. Comparison becomes easier when standards are set in quantitative terms. For instance, performance of a worker in terms of units produced in a week can be easily measured against the standard output for the week.

For e.g. It is easy to compare the actual revenue earned by the sales executive with targets given to him. If he achieves less than the target, then the reasons need to be analysed to ensure better performance in the future.

**Step 4: Analysing Deviations:** Deviation is the difference between actual performance and the standard performance.

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Some deviation in performance can be expected in all activities. It is, therefore, important to determine the acceptable range of deviations. Also, deviations in key areas of business need to be attended more urgently as compared to deviations in certain insignificant areas. Critical point control and management by exception should be used by a manager in this regard.

1. **Critical Point Control:** Critical point refers to controlling the key areas which are critical to the overall performance of an organisation. It is neither economical nor easy to keep a check on each and every activity in an organisation. Control should, therefore, focus on key result areas (KRAs) which are critical to the success of an organisation. These KRAs are set as the critical points. If anything goes wrong at the critical points, the entire organisation suffers.

For instance:

- a) In a manufacturing organisation, an increase of 5 percent in the labour cost may be more troublesome than a 15 percent increase in postal charges.
  - b) Production centre is a critical point in a manufacturing organisation. The causes of increase in cost will first be analysed at production point.
2. **Management by Exception:** Management by exception, which is often referred to as control by exception, is an important principle of management control based on the belief that an attempt to control everything results in controlling nothing. Thus, only significant deviations which go beyond the permissible limit, should be brought to the notice of management. Thus, if the plans lay down 2 percent increase in labour cost as an acceptable range of deviation in a manufacturing organisation, only increase in labour cost beyond 2 per cent should be brought to the notice of the management. However, in case of major deviation from the standard (say, 5 per cent), the matter has to receive immediate action of management on a priority basis. After identifying the deviations that demand managerial attention, these deviations need to be analysed for their causes. Deviations may have multiple causes for their origin. These include unrealistic standards, defective process, inadequacy of resources, structural drawbacks, organisational constraints and environmental factors beyond the control of the organisation. It is necessary to identify the exact cause(s) of deviations, failing which, an appropriate corrective action might not be possible. The deviations and their causes are then reported and corrective action taken at appropriate level.



**Step 5: Taking Corrective Action:** The final step in the controlling process is taking corrective action. No corrective action is required when the deviations are within acceptable limits. However, when the deviations go beyond the acceptable range, especially in the important areas, it demands immediate managerial attention so that deviations do not occur again and standards are accomplished.

Corrective action might involve training of employees if the production target could not be met. Similarly, if an important project is running behind schedule, corrective action might involve assigning of additional workers and equipment to the project and permission for overtime work.

Examples of corrective actions:

- i. If a project is running behind schedule because unskilled workers take longer to complete the task then management may employ skilled workers to complete the project on time.
- ii. The cost of production rose by 7% and on analysing the cause of deviation it was found that actual quantity of raw material used was more than the standard quantity. The standard quantity calculated was inaccurate. Management takes the corrective action by recalculating the standard quantity of raw material so that cost can be calculated correctly in future.

In case the deviation cannot be corrected through managerial action, the standards may have to be revised. The table below cites some of the causes of deviations and the respective corrective action that might be taken by a manager.

#### **Some examples of corrective action**

<b>Causes of deviation</b>	<b>Corrective action to be taken</b>
1. Defective Material	Change the quality specification for the material used
2. Defective Machinery	Repair the existing machine or replace the machine if it cannot be repaired
3. Obsolete Machinery	Undertake technological upgradation of machinery
4. Defective Process	Modify the existing process
5. Defective physical conditions of work	Improve the physical conditions of work

#### **Advantages of critical point control and management by exception**

When a manager sets critical points and focuses attention on significant deviations which cross the permissible limit, the following advantages accrue:

1. It saves the time and efforts of managers as they deal with only significant

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deviations.

2. It focuses managerial attention on important areas. Thus, there is better utilisation of managerial talent.
3. The routine problems are left to the subordinates. Management by exception, thus, facilitates delegation of authority and increases morale of the employees.
4. It identifies critical problems which need timely action to keep the organisation in right track.

#### **Critical Point Control Vs Management by exception**

Under “critical point control” the manager concentrates on selected strategic or key activities. On the other hand, under “management by exception”, the manager is mainly concerned with major deviations, regardless of the fact where they occur.

#### **Concept of deviation**

Deviation refers to difference between actual performance and standard performance.

Deviation can be

- Positive deviation: When actual performance is better than the standard performance.
- Negative deviation: When actual performance is less than the standard performance.

Example: Suppose, a company has fixed the standard production at 40 units per month. At the end of month, Shyam made 55 units. Ram could make 35 units and Isha made 40 units. Identify and measure the deviation.

- 1) Positive deviation: Shyam has positive deviation of 15 units.
- 2) Negative deviation: Ram has negative deviation of 5 units.

In case of Isha, there is no deviation as actual production is equal to standard production.

### **Chapter at a Glance**

#### **Relationship between Planning and Controlling**

- Planning and controlling are inseparable twins of management.
- Both planning and controlling are interrelated and interdependent.
- Planning is prescriptive and controlling is evaluative.
- Both are backward looking as well as forward looking functions.

#### **Steps in the Controlling Process**

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- Setting Performance Standards.
  - Measurement of Actual Performance.
  - Comparing Actual Performance with Standards.
  - Analysing Deviations.