**Why do we need “CONTROLS” ?**

Controllership is often given minimal focus by business managers. It is deemed to be an administrative function and overlooked as a non contributor to business and an unwanted overhead, and just a formality.

It is the most critical function for implementation of the vision. All efforts to achieve the set goal would come to naught in the absence of an effective control system in place.

If business were to be a Ferrari with tremendous power and speed, controlling is the steering wheel that ensures there is no deviation from the track and direction. This is the way to success.

Wanton running and speed will take you nowhere.

How much control has to be exercised is again an art and has to be judiciously planned. Excessive controls could be a deterrent to business, while a very lenient approach would put the business on a collision course.

Let us now briefly enumerate a few misconceptions and areas where a business manager has to concentrate and exercise judicious controls.

**BD21421_ “My Turnover is increasing, so I must be doing great business.”**

**Caution:** Increase in turnover can also be achieved by selling large volumes, at a price below cost and adding more manpower (overheads) to achieve it. You decide, if this is profitable business.

* The primary objective of business is earning profits.
* A growth in turnover need not mean the business is profitable.
* Performance should be measured based on the quality of earnings and debts.

**BD21421_ “If my Profit and Loss (P&L) account shows profits why should I do product or project costing?”**

**Caution:** P&L recognizes revenues on accrual basis and not receipt basis. This means your profit as per P&L may still have unrealized profits.

* It is important to track cash profits and liquidity position of the business
* Overheads and taxes are real cash outflows as against credit turnovers that have an element of doubt with respect to realization.
* Costing ensures that all costs (direct and indirect) pertaining to a project or product are identified
* Delay in collecting debts has an impact on the profitability as there is an impact of interest on borrowed funds for the time for the period of delay.
* Choose the most appropriate costing methodology for your business
* Develop and document a clear Business policy

**BD21421_ “Why should I incur cost to ensure quality?”**

**Caution**: Quality is an intangible asset which ensures long term benefits. Do not try to measure it with the current cash outflows

* High quality is very essential ingredient for realizing long term visions.
* The term quality is not restricted to quality of output generated by your business activity. It includes customers, suppliers and employees.
* Set quality standards and service level agreements with all related parties.

**BD21421_ “I have a liquidity crisis very often”**

**Caution:** Business has to create wealth for all parties associated with it. You maybe just are hanging around with the help of borrowed funds.

* Monitor your liquidity ratios
* Evaluate Quality of debts and debtors
* Revisit your business strategies
* Do not evade taking bold decisions
* Develop strict measures for continuing business with defaulting customers and suppliers

**BD21421_ “Why do I need quality, management and financial audits?”**

**Caution:** Audits raise timely alerts on discrepancies that need immediate attention.

* Audit gives an independent opinion on the areas under scrutiny
* Audits can be carried out by competent internal staff members
* It is in your best interest not to influence the audit finding and reports
* Objectively evaluate the critiquing that emerges from this exercise
* Do not assume a defensive approach towards the findings
* Audits ensure continual improvements to process, quality and ultimately enhance profitability

**BD21421_ “How do I know if I currently have a problem?”**

Given below is a model general health check questionnaire for evaluation. You could develop similar questionnaires that would be most meaningful for your organization.

**Organization health check-up**

1. **Top line (Turnover) is growing but the Earnings before interest and taxes are constant or shrinking.**

A. No

B. Yes

C. Can’t say

1. **Employees are putting over time at the office.**

A. Sometimes

B. Never

C. Always

1. **The financials (including branch reconciliations) are ready for audit**

A. On any given day

B. Need 5-7 working days to prepare

C. Can’t say

1. **Details of a particular order, status of completion and invoices are available**

A. readily

B. after 2 days

C. not sure

1. **Can guarantee compliance with statutes and regulations.**

A. Yes

B. No

C. Can’t say

1. **The average debt collection period is**

A. 30-45 days

B. More than 45 days

C. Can’t say

1. **Statistics on project or product cost and pricing is available for**

A. All

B. Some

C. None

1. **Annual budgets are made and revised**

A. Quarterly

B. Half-yearly

C. Never

1. **Employees attend relevant training or workshop at least**

A. 10-15 days a year

B. 5 days a year

C. Do not attend any programs

1. **Process efficiency and adequacy audits are undertaken**

A. Once every quarter

B. Once every six months

C. Never

1. **Internal audit is carried out**

A. Every month

B. Every quarter

C. Never

1. **Physical verification of stock in trade if any is done**

A. Every day

B. Every month

C. Can’t say

1. **Physical verification of assets is done**

A. Once every year

B. Once every three years

C. Can’t say

1. **Organization charts with clearly defined authority and responsibilities are circulated within the organization**
   1. Periodically
   2. Occasionally
   3. Can’t say
2. **Do your managers have sufficient authority to take decisions and discharge their functions effectively?**
   1. Yes
   2. No
   3. Can’t say
3. **You are satisfied with the performance of** 
   1. Most employees
   2. Some employees
   3. Few employees

**Scoring:**

**Give yourself**

**0** for option “A”

1 for option “B”

**2** for option “C”

**Analysis:**

**Your score-**

* **(0-7):** Your organization is healthy. You are in control of your business. Your processes are satisfactory. There could be a few areas which are being overlooked and require attention.
* **(8-16):** Your organization is showing symptoms of incapability to cope with growth, dynamism and changes in environment. You need to strengthen your processes and overall quality of human and other resources. The underlying causes and remedies need to be analyzed.
* **(Above 16):** Your organization is showing signs of disintegration and lack of focus. If immediate attention is not given to processes, financial health and human and other resources, it would be difficult to survive in the long-run.