

CONTROLLING - A USEFULL TOOL FOR TOP MANAGEMENT

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ABSTRACT

Controlling outlines business policy of an enterprise, the term derives from an English word - to control - control, managing, setting rules and directing. The controller's duty is to serve the management as an economic navigator and to ensure that the company's ship reaches its profit targets. The controller has to be sure that he or she has an organizational support from the top management. It was suggested to establish the controlling department which can be applied to the systems of economy and which would be directed to recognizing and forecasting the future. Nowadays, a modern enterprise can successfully fight with the competition and crisis only if it puts efficient controlling processing into practice. The goal of controlling is to recognize and solve problems or suggest measures for solving them and all that, in order to avoid such problems in the future.

Keywords: *controlling, controlling system, controller, operational controlling*

1. INTRODUCTION

In a historical perspective, the management appears as an integrative science that has developed due to the contribution of other areas and only to a small extent by its own evolution. One possible explanation may be given by the complexity and dynamics of organizations, these being in constant competition for resources and market shares in an increasingly turbulent economic environment. In this context, controlling was created by an interesting combination of knowledge from the theory of automatic regulation with the pragmatic accounting ones, in an institution. Perhaps this is why there has been created a semantic confusion of the concept, by the tendency to identify its origin in the control function of management [1].

Controlling is not about product features; it is about the correlation between planned activities and the progress of their interpretation, using, as a metric, the company's financial and accounting support. By controlling, we assess the difference between what was planned and what has been achieved and there are highlighted the causes that contributed to this gap and the measures that must be taken in order to reduce or eliminate the difference.

Controlling is much more, namely a concept of functional management, with the role to coordinate the planning, control and information in order to achieve the desired results. The controller is the "economic awareness" of the company [1].

2. THE DEFINITION OF CONTROLLING

Controlling consists of verifying whether everything occurs in conformities with the plans adopted, instructions issued and principles established. Controlling ensures that there is effective and efficient

utilization of organizational resources so as to achieve the planned goals. Controlling measures the deviation of actual performance from the standard performance, discovers the causes of such deviations and helps in taking corrective actions.

According to Brech, "*Controlling is a systematic exercise which is called as a process of checking actual performance against the standards or plans with a view to ensure adequate progress and also recording such experience as is gained as a contribution to possible future needs.*"[1].

According to Donnell, "*Just as a navigator continually takes reading to ensure whether he is relative to a planned action, so should a business manager continually take reading to assure himself that his enterprise is on right course.*" [2].

3. WHY CONTROLLING?

Controlling can be considered as an internal management which a general manager and other managers use in making decisions and it gives answers to the following questions [1]

- *Do you know exactly what products record profit and where this profit has to be allocated?*
- *Do you learn in advance if everything goes according to the plan or if there is deviation from the plan?*
- *Do you know the causes of these deviations from the plan?*
- *Do you know how certain actions affect your results?*
- *Do you know the results achieved according to the business principles, i.e. without tax adjustment?*
- *Can you implement the company's strategy in concrete action plans and results?*
- *What leads to indirect cost increase?*
- *Do you know what is the best investment alternative?*

Then, the same author emphasizes that managers often think unreasonably and ignorant associates surround them. Wishing to avoid making the wrong decisions, they are forced to introduce the perfect controls. However, the desirable success often misses. If we ask the question why, the answer could be that this is because the associates avoid making decisions themselves in order not to offend their superior or to make sure they did not make any mistakes, so they return unsolved questions to their superiors. According to time, we divide controlling into operational which deals with the future up to a year.

In principle, we must distinguish strictly between controlling, as function, and controller, as responsible. Actually, controlling, in terms of management, is a central task management.

The controlling task within the company involves sorting the naturally existing individual components, checking their utility, completing and organizing them as a different system. The most important parts of the management system towards which the controller's activity is oriented are:

- (1) the planning and control system;
- (2) the information system.

The controlling process is characterized by the joint action of the information and planning systems. Controlling is not actually only a service brought to management, which supports it by the information provided. It is an idea which has to be communicated to all the employees of a firm. This idea includes both the mode of action oriented towards the company's success and planning, with a personalized responsibility, and towards the thinking beyond the individual activity area, in the sense of an interference management [1] based on the integrated controlling [1], [2].

The controlling instruments are based on a flexible database that leverages information from cost accounting, from the calculation of products, from the results account etc., being completed by strategic market information. These important tools used by the controller are the investment account and the involvement and establishment of indices and index systems. These instruments are used by the controller both in planning and leadership activities but also in control and reporting activities [1].

The importance of controlling within the company:

- Controlling is an innovative concept for performance management. The priority of introducing and implementing controlling within the company is "cost management or, more exactly, from financial accounting to cost accounting";
- The best practical solutions for "planning and reporting" activities. *Example:* Project Control: aimed at completing projects on time, within the budget and to the required quality level [1];
- Analyses and effective solutions from the activity of the financial – accounting sector for non-financial managers;

- Improvement of performance within Sales and Marketing departments by generalizing controlling methods and techniques:
 - How to effectively manage your customer base?
 - The Foundations of Risk Management.

4. THE CONTROLLER WITHIN THE INSTITUTION / COMPANY

Basically, the controller has two different tasks of coordination, both in relation to the planning system and to the information system. On the one hand, it deals with structuring and development, and, on the other hand, it deals with daily functioning (permanent coordination).

Firstly, the controller supports management, and, secondly, he/she is active at the decentralized level in the sense of the implementation of the idea of controlling among the employees. Its contribution to the planning process and to the information needed leads to the controller's direct subordination to the company's management. The controller transforms himself/herself from a simple service provider in a management consultant [1], [3].

- The controller's role within the planning is to coordinate the partial plans and to organize the entire planning process. Therefore, not the controller but the manager is the one who normally plans and coordinates;
- The controller's role in the information system is to disseminate the information needed, to obtain and to process them (in accounting) and to transmit them in reports.

The controlling departments are usually placed in the head office (there is a head office or a team on a management's side) as a controlling department [1]. Using the controlling, the management of an enterprise can effectively fulfil its role, which can be observed through several most important directives such as managing through defining the clear goals - from the top to the bottom and vice versa.

4.1. Controlling system (an example made by Horvath & Partners)

Every manager (financial manager and commercial manager) is faced with questions concerning his or her *controlling organization* and the appropriate resources in the company [1].

- Do we have a suitable controlling system?
- Does management within controlling stick to the dotted line as it should?
- Do we have too many controllers on board?
- Do procedures and results in planning and reporting live up to best practice expectations?

4.1.1. The solution

The Controller uses a short analysis based on benchmarks to answer these and other questions on the current state of management accounting and controlling within your company and provides concrete

recommendations for improving the performance of your controlling.

4.1.2. *The approach for the controlling audit*

The activities of *Conntroller* consists of five core elements which are run in a tried-and-tested, step-by-step approach [1]:

- *Developing a target position for your controlling:*
The future challenges and goals for your company shape the demands upon corporate management and thus upon your management accounting and controlling. This mid- to long-term target position is first defined with top management at the beginning of the controlling's activities (controlling audit). The audit's findings are then used to firm up the target position and adopt it formally. The future role of your controlling department is anchored in a set of controlling guidelines. Management's understanding of its role and the demands upon it are critical parameters for the future target position of your management accounting and control.
- *Analyzing the current state:*
An evaluation of the current situation within your controlling organization is carried out by means of questionnaire-based interviews and workshops with managers and controllers. The analysis focuses on the structure of the organization, the controlling processes, the methods and approaches applied, the tools and instruments used and the resources. Here, both the way the controller sees the controlling department and the way customers see things are recorded and systematically evaluated.
- *Reflecting the results of the current-state analysis using benchmarks (positioning):*
Underlying both the quantitative and the qualitative benchmarks is the most extensive and comprehensive controlling database. Using a standardized process model for all relevant controlling activities, the highest possible degree of comparability is both guaranteed and achieved. The results of the evaluation are laid down concisely in a detailed report.
- *Deriving the need for action (gap analysis) using best practices:*
In order to make this possible, Controller will identify and analyze *the gap between the target position of your controlling and its current state*. What is decisive here is the integration of the various optimization measures into an overall controlling concept.
- *Drawing up the implementation plan (realization):*
The concrete implementation planning in the last stage of the Controlling system ensures rapid transition from analysis and concept to realizing the optimization measures.

4.1.3. *The result of the controlling audit*

The *Controller* show you very quickly the current state of management accounting and controlling in your company in comparison with industry benchmarks and provide you with concrete recommendations on how to improve performance and to achieve a defined target position for your controlling. With the help of our initial implementation plan you can get down to realization very quickly.

4.2. *Building a Controlling system*

Controlling system is typical for modern businesses. In addition to central controlling (company controlling), which takes general controlling tasks for various divisions (departments) and functions, as a transversal function, there are decentralized controlling departments for each activity, sector and branch.

Significant elements of an effective controlling system specific to companies in this field:

- The *overall controlling* of the company - financial controlling; strategy planning and organization; investment controlling; coordination of subsidiaries – agencies; the general management of clients.
- *Development controlling* - the growing importance of this function, which developed in terms of costs and strategically, as a central factor for business success, increased the interest to present this field – shipping, more transparently and economically. *Controlling development* was regularly faced with the lack of activity standardization, which involved a series of implications for planning and control. Similarly to the field of developments, achieving projects is more and more presented as a success factor, which justifies the existence of project controlling.
- *Staff controlling* - flexible planning of staff involvement and productivity measurement based on scanner data - "qualification controlling".
- *Logistics controlling* - trying to replicate all the functions of Porter's value chain by emphasizing the issues related to procurement and distribution.

Which is the most important factor that generates the need to implement and improve Controlling in Romanian companies?

- 1 As the business environment becomes more competitive, Controlling can help maintaining the overview
- 2 As companies expand and diversify their activity, the management needs reliable data about the profitability of products/services
- 3 The need to improve the performance, the planning and the reporting instruments accepted in the entire company
- 4 Revenues fall and costs grow. Controlling should provide an analysis and a support in taking the right measures for lowering costs
- 5 The main competitors are already using Controlling instruments

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Figure 1 Challenges in improving Controlling system in Romania [1], [4].

5. CONTROLLING IN ROMANIA

When asked, "Which are the major challenges in creating a *Controlling department* and adopting different *controlling tools*?" the majority admitted that the Romanian market lacks know-how and experts in this field. This fact is not surprising, since there is no university in Romania offering a specialization on Controlling or at least a controlling course. Many managers still perceive Controlling as Accounting or Audit.

Horvath & Partners in 2011 [3] states, in our competitive today's business environment the informational role of Accounting is no longer sufficient. The decisions of a manager must be based on information about the future, on analysis and anticipation of future problems. This applies to a greater extend to Romanian managers, which often make decision without having a solid basis, but guiding themselves after current opportunities or acting on instinct.

The message is clear: 49% of the managers attending or participating in training courses [4] recognized with what Controlling is supposed to help their organization - by being a business partner that supports the decisions of management. Due to these conditions, the market is seeking possibilities for training to adopt state of the art *controlling* practices. This is the reason why the specialists in *Controlling*, unlike in the initial plan, has decided to offer Romanian companies different solutions and best practices examples.

Which are the major challenges in creating a Controlling department and adopting modern Controlling instruments?

- 1 Controlling is not needed, the revenues and growth rates are (still) big
- 2 Clear sharing of responsibilities (Financial Accounting and decision about the business)
- 3 Availability/ Acces to the Controlling expertise and know-how on Romanian markets
- 4 Availability of professional trainings
- 5 Inaccurate interpretation of Controlling as Internal Audit or as a function of Control

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Figure 2 Tasks for creating a *Controlling department*

Besides the search for know-how and good Controlling practices, leading Romanian companies are actively developing their Controlling departments and processes. This is seen as an appropriate strategy to improve management control and transparency of results, performance and costs.

A good example that reflects the status and challenges of Romanian corporations is RTC [4], a big group that started to create and integrate a Controlling function. Like many Romanian companies, some of the Controller attributions were already performed by the Financial Officer. But because of the great amount of diverse activities, a need for specialized Controlling appeared. The company encountered some challenges in finding the right person for this position, since there are not many experts in this field. Internal Recruiting was of course preferred, because first of all a Controller must have a solid knowledge and understanding of the business processes.

The lack of communication between departments, the irrelevant or untimely reporting and other similar problems will be all overcome when Controlling will be introduced in the company, with the support and implication of top management.

6. CONCLUSIONS

As a conclusion, we can state that the companies in Romania realized that in order to grow profitably, in the setting of growing complexity of operations, higher investments and also risks, they are in great need of coordinating their business units with each other and with the external social and economical environment - the main task of Controlling. Along this tricky road, the experts in *Controlling* offer them individualized, innovative solutions and help them build a performance-oriented Controlling department easier.

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