



BELARUSIAN
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Theoretical and methodical basis of the controlling

Materials for the lecture in "Industry audit and controlling"

Content

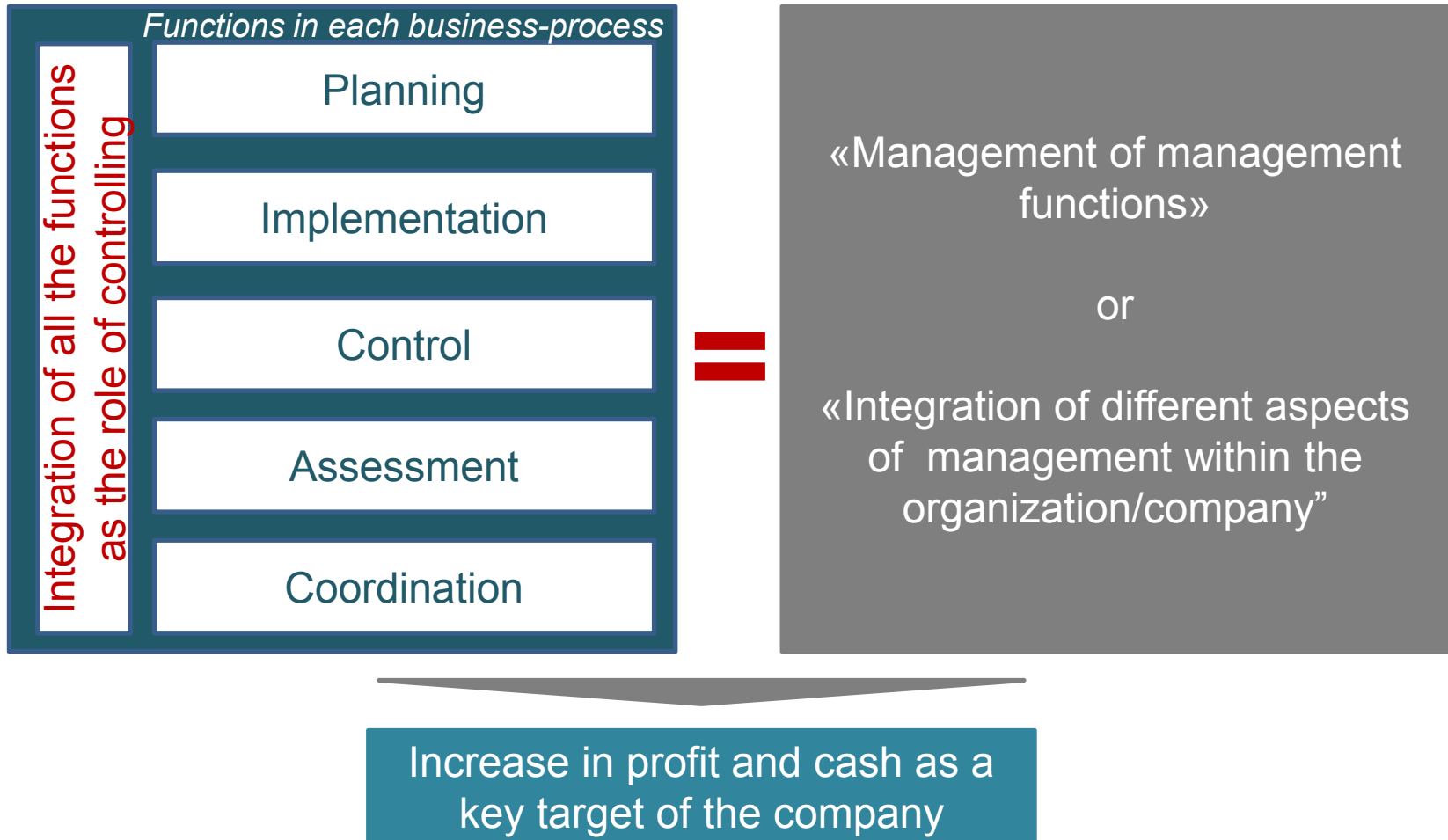
- 1 Controlling: definition of the term and its evolution
- 2 Controlling system: main elements and their characteristics
- 3 Types of controlling and their specificity



1. Controlling: definition of the term and its evolution

The main controlling task is to “manage the process of management”

Controlling and its main role within the company



The term controlling includes several aspects that should be taken into account

CONTROLLING AS A MIND SET

(philosophical aspect)



- Philosophy of managers that aims at effective resource use and long-term development of the company
- Not using the term “controlling” by the company doesn’t mean that it doesn’t use controlling philosophy

CONTROLLING AS A FUNCTION

(functional aspect)



- Controlling as a service function that provides information, analytical, methodical support to the management of the company in all areas of the business

CONTROLLING AS A COMPANY UNIT

(organizational aspect)



- Controlling as a unit within the company that fulfills the function of controlling

CONTROLLING AS SCIENCE

(science aspect)



- Controlling as science that is involved in the development of the theory and tools for assessment of resources, functional areas and processes, elements of management

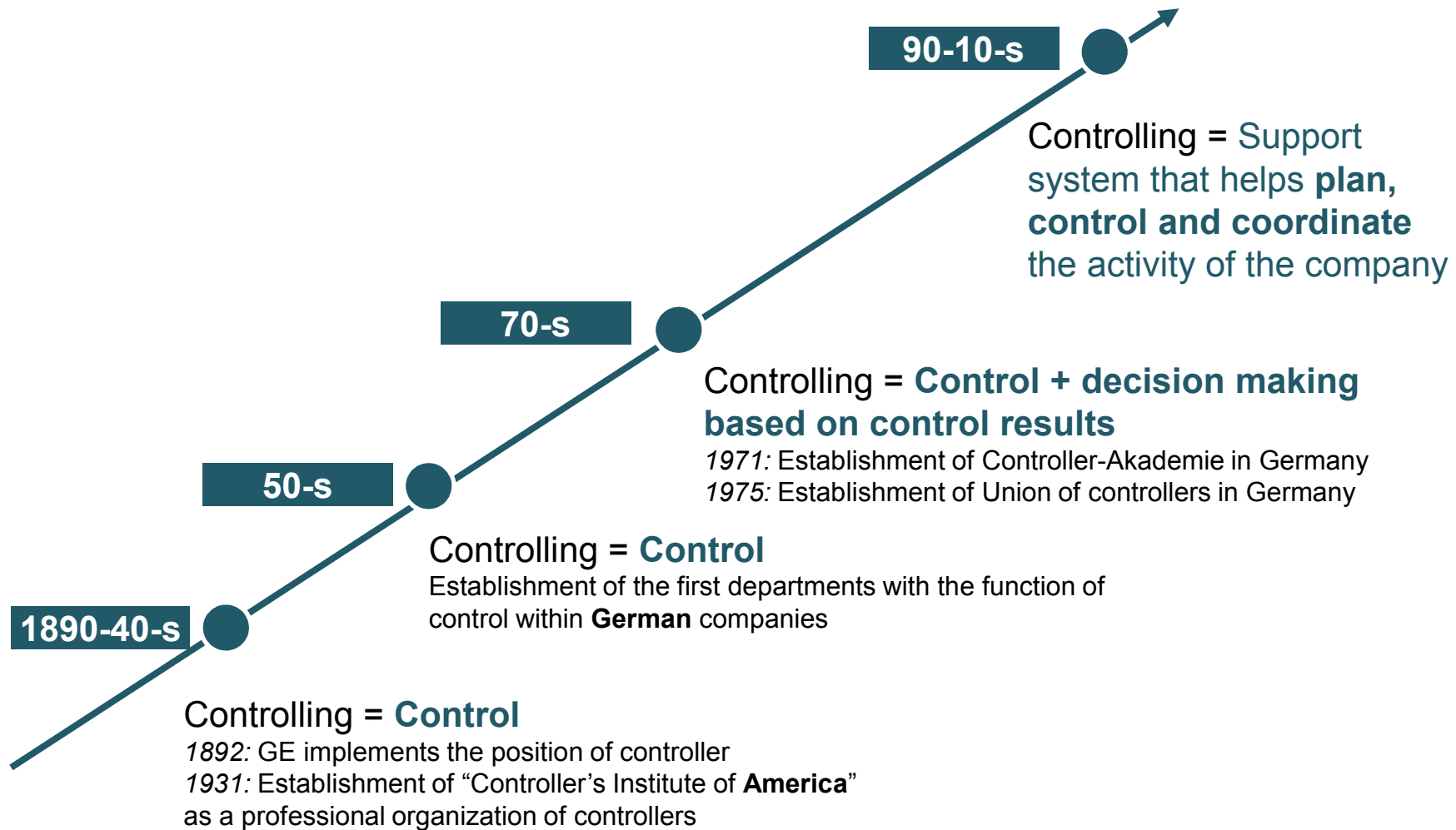
There are several definitions of controlling – we'll consider controlling as a system that supports management decisions

Controlling is a new concept of management...

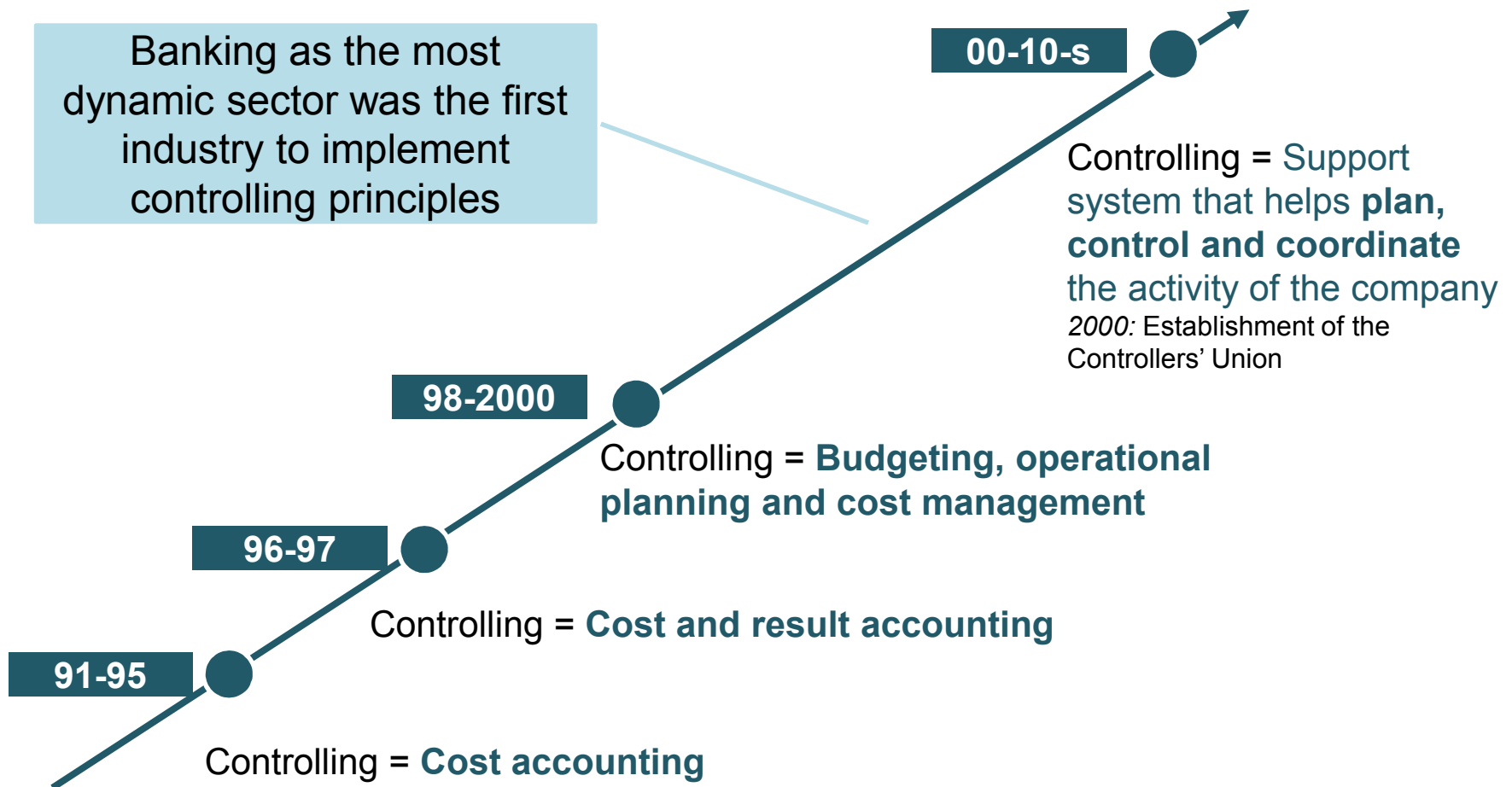
meaning...

target-related **SUPPORT OF MANAGEMENT** serving **PROCUREMENT OF INFORMATION** and the **INFORMATION PROCESSING** for the drawing of the plans, coordination and control

The term “controlling” has evolved from pure control in 1950-s to the complex system of planning, control and coordination in 2010-s



The controlling in the post-soviet countries appeared only in 1990-s, evolving from pure cost accounting to complex support system

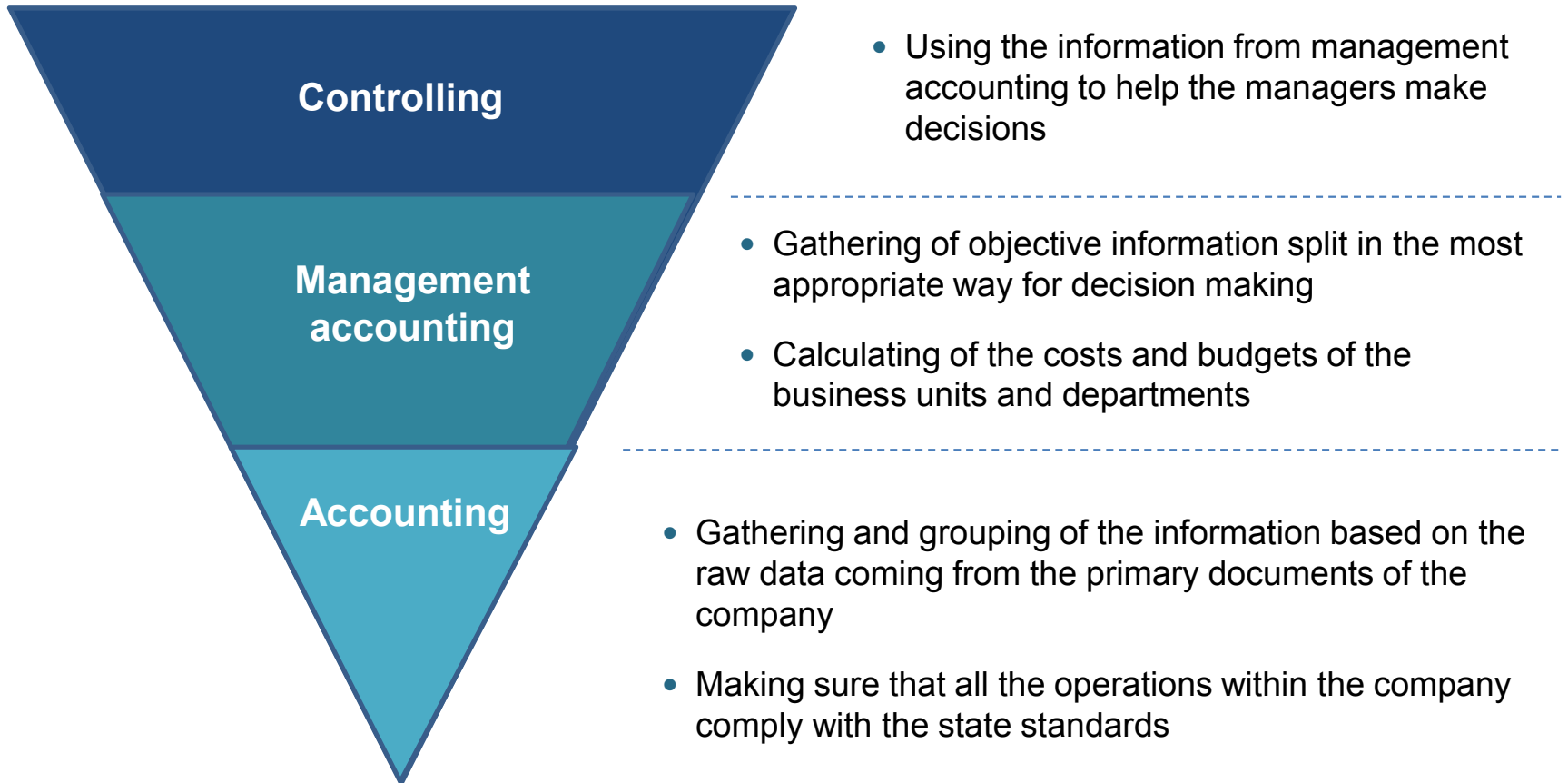


The development of controlling concept and its implementation is determined by a set of factors

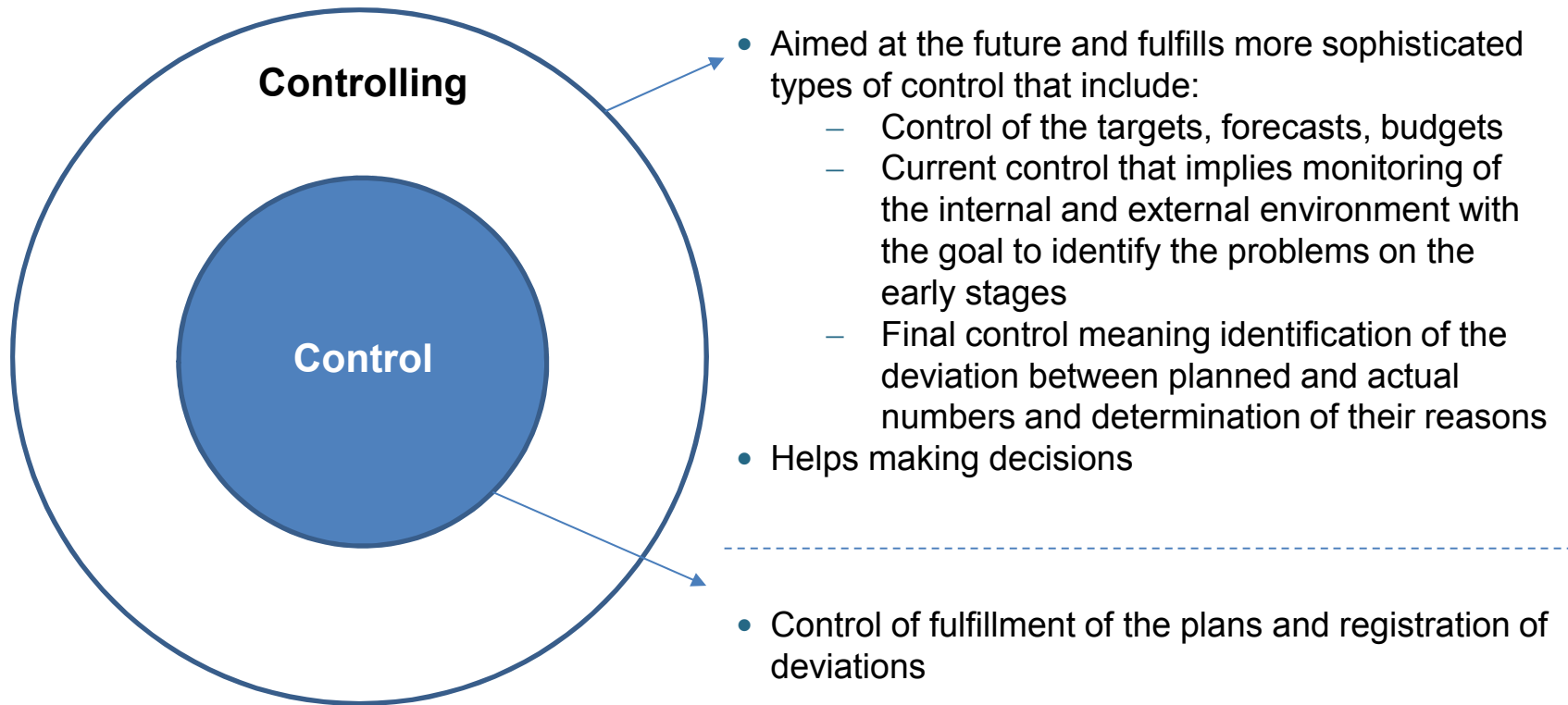
NECESSITY FOR CONTROLLING IMPLEMENTATION is determined by several factors:

- **RAPID CHANGES IN THE ENVIRONMENT** and need for increase in sustainability of the company
- **ECONOMIC CRISIS AND NECESSITY TO CRITICALLY ASSESS** the actions of the management of the company
- **NEW OPPORTUNITIES** that should be identified and realized
- **NEED FOR ANALYSIS OF THE INTERNAL AND EXTERNAL ENVIRONMENT** to avoid crisis within the company
- **GROWING COMPLEXITY** of the management process due to the huge flows of the information and **NEED TO PRIORITIZE** these flows

Controlling is often associated with management accounting, pure accounting, or control though it's much wider (1/2)

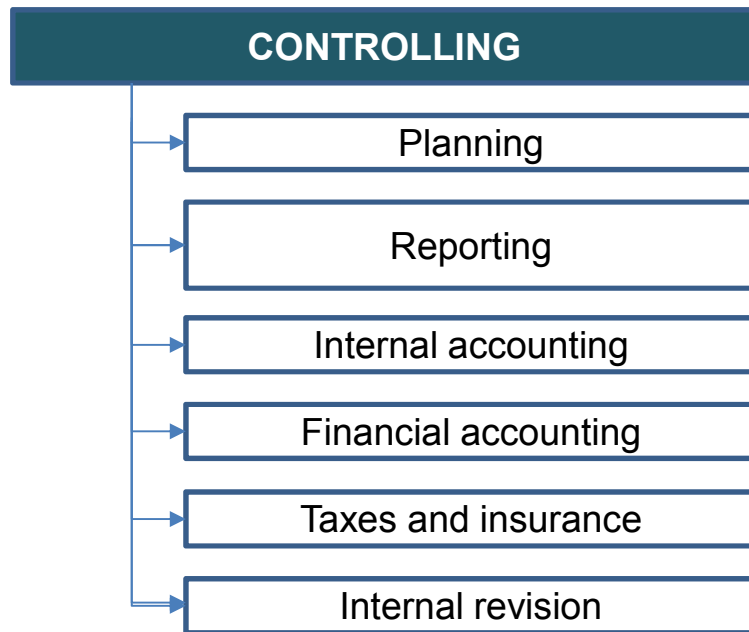


Controlling is often associated with management accounting or pure accounting, or control though it's much wider (2/2)



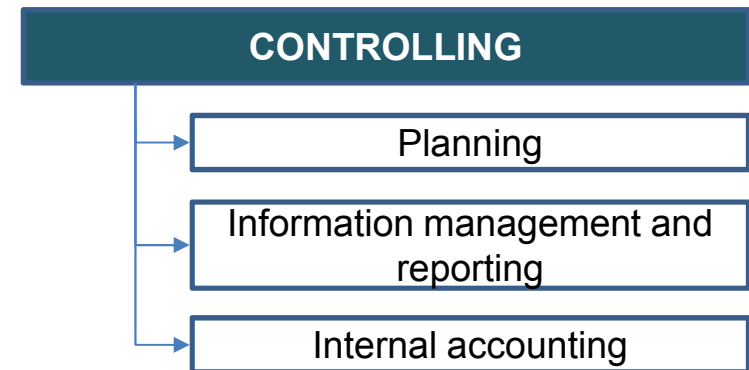
Despite some common elements the models/systems of controlling can differ by countries

Anglo-American model



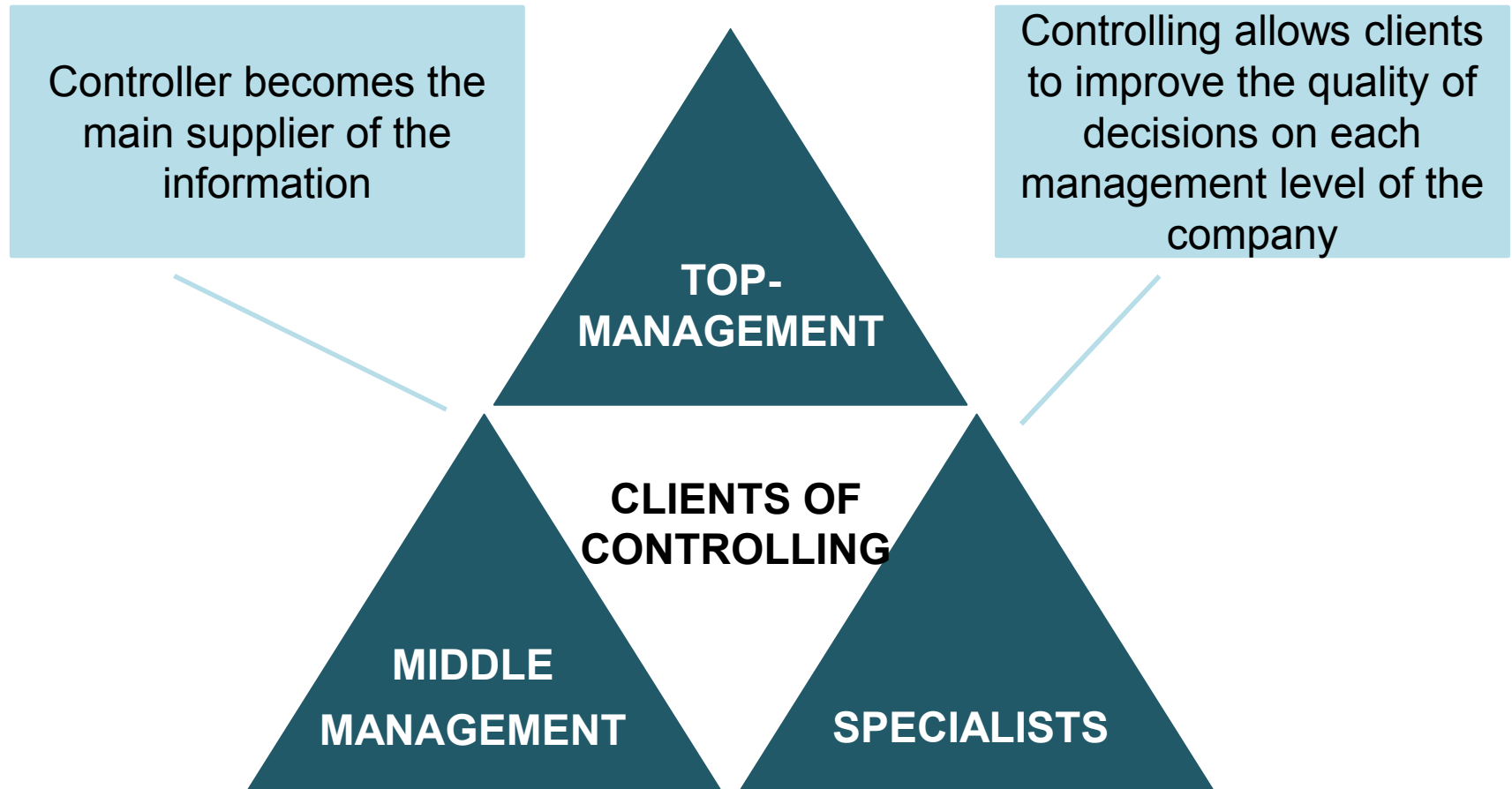
- Pragmatic approach for controlling
- Focus on finance and management accounting
- Focus mainly on operational activity
- Term “management accounting” is more commonly used than “controlling”

German model



- Trend for academization of controlling
- Functions of controlling and finance are disintegrated
- Controlling includes both strategic and operational aspects
- Controlling is not the control from outside, it implies self-control of the managers

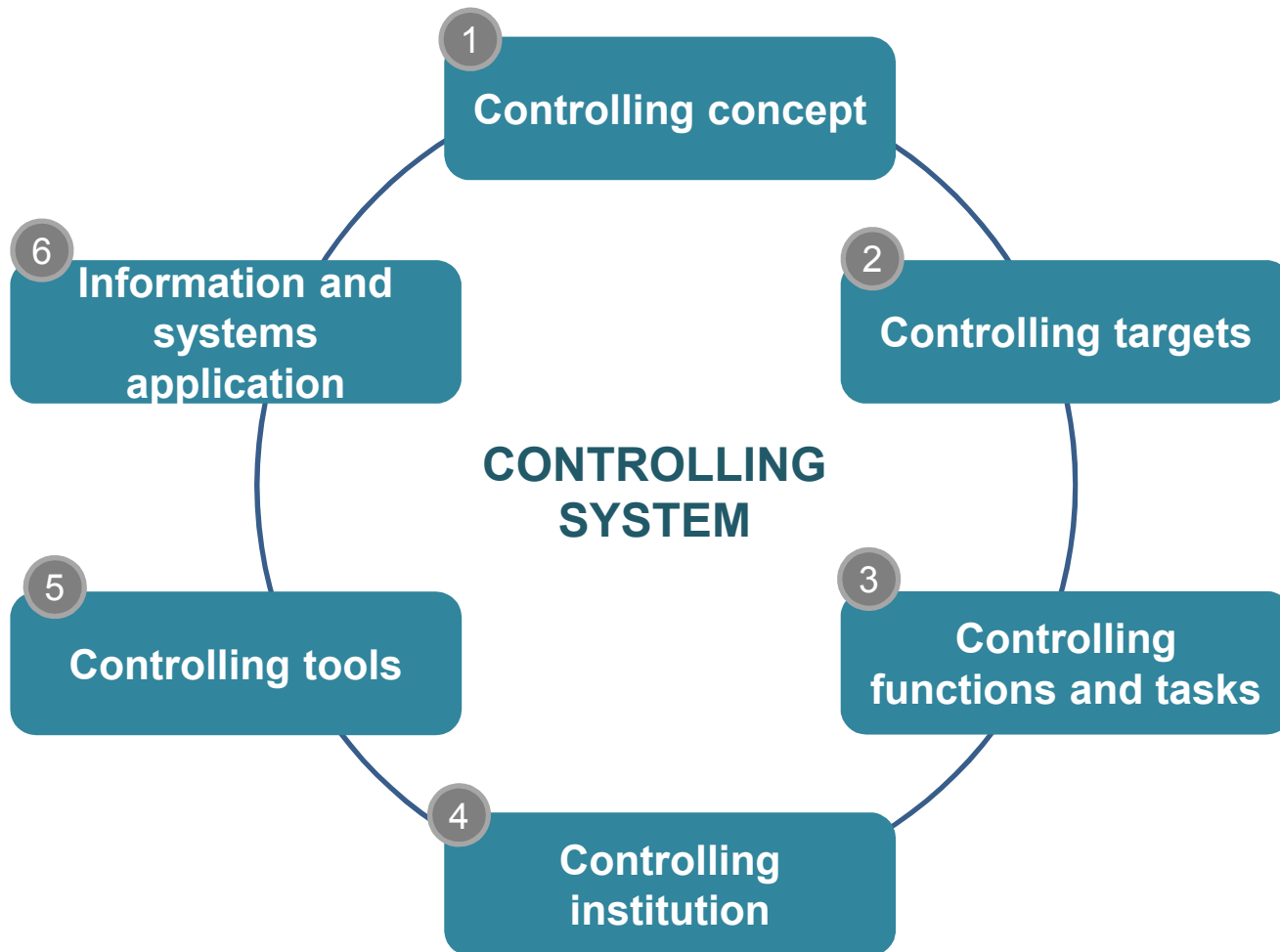
Controlling supports decision making process on all the levels





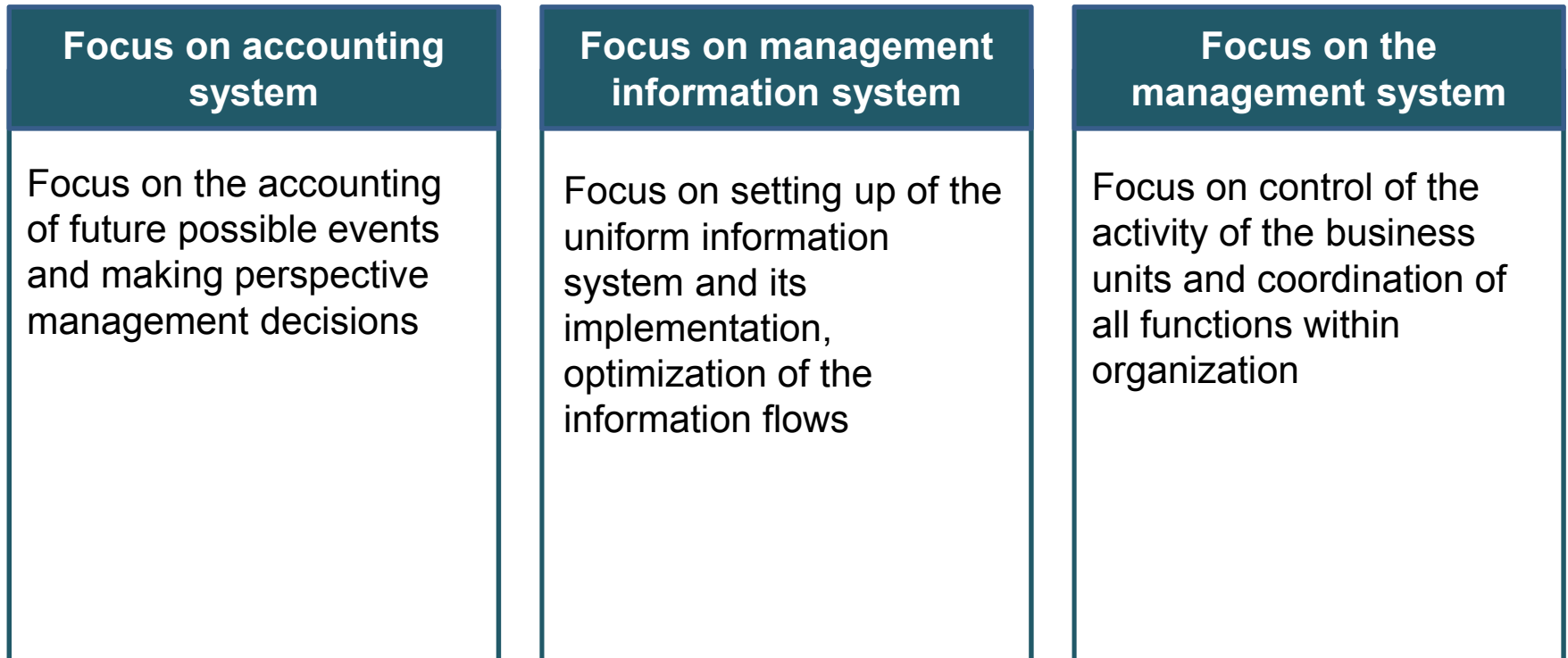
2. Controlling system: main elements and their characteristics

Controlling is a system that consists of several key elements



1 Controlling concept

Controlling concepts differ by the level of complexity: from main focus on management accounting to management system



Level of the complexity of controlling role

2 Controlling targets

The main controlling target is determined by the overall goal of the company

MAIN TARGETS OF THE CONTROLLING



Achievement of the goals of the company in the situation of constantly changing and unstable environment, e.g.:

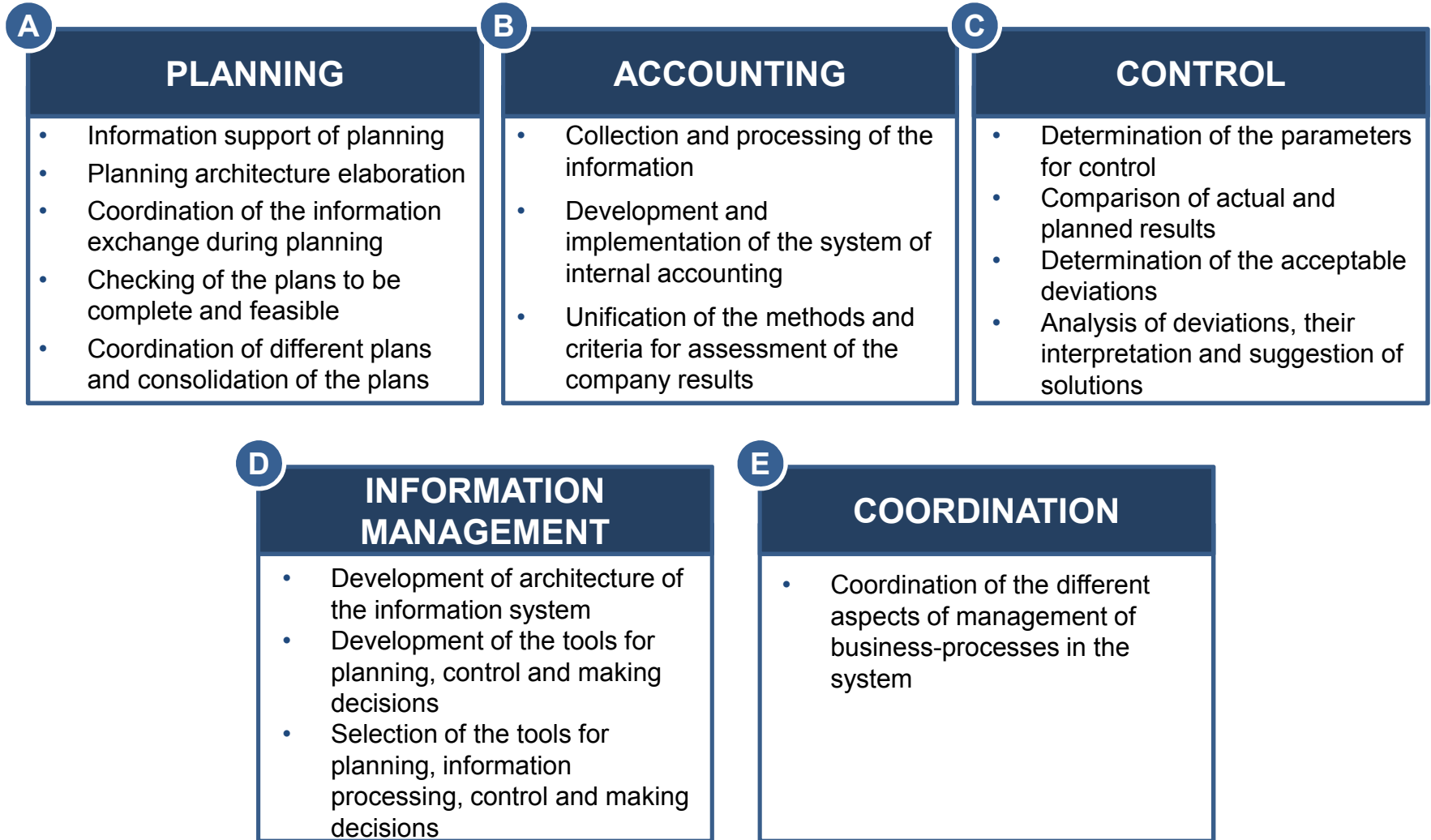
Achievement of a certain level of profit and profitability

Achievement of certain level of capacity usage

Achievement of certain level of liquidity

3 Controlling functions and tasks

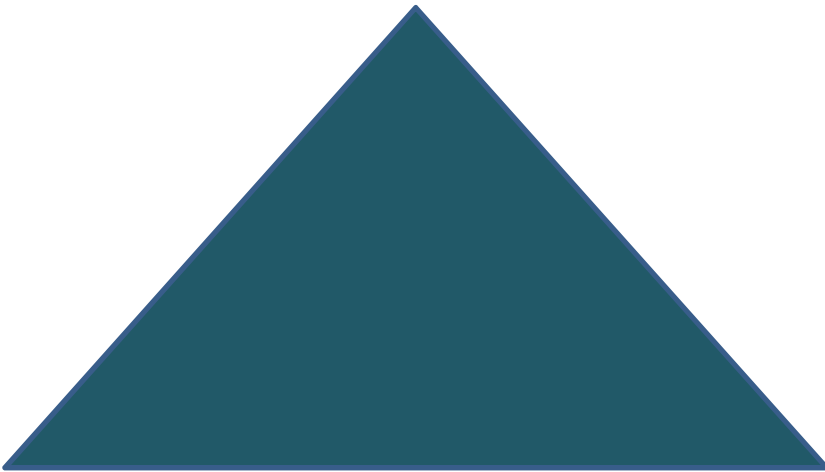
The controlling functions range from planning to accounting and coordination



2 A Controlling functions and tasks: planning

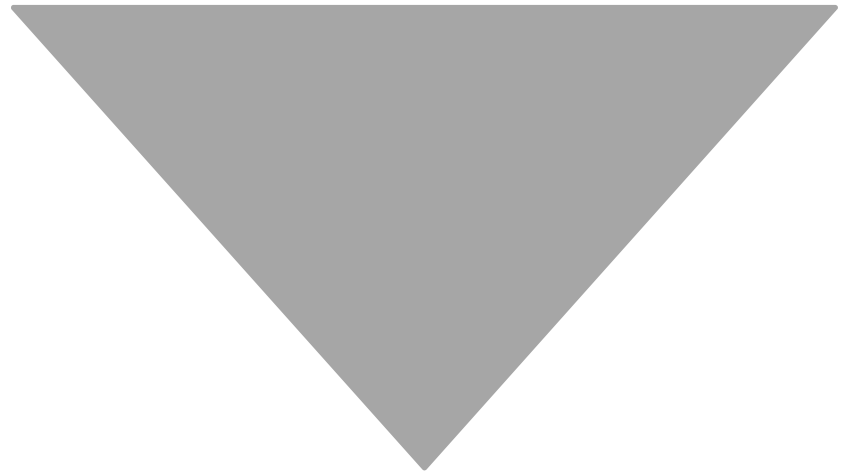
Planning is the two line road, that includes top-down and bottom up planning

Top-down approach



- The high-level plan for the company is set by the top-management of the company

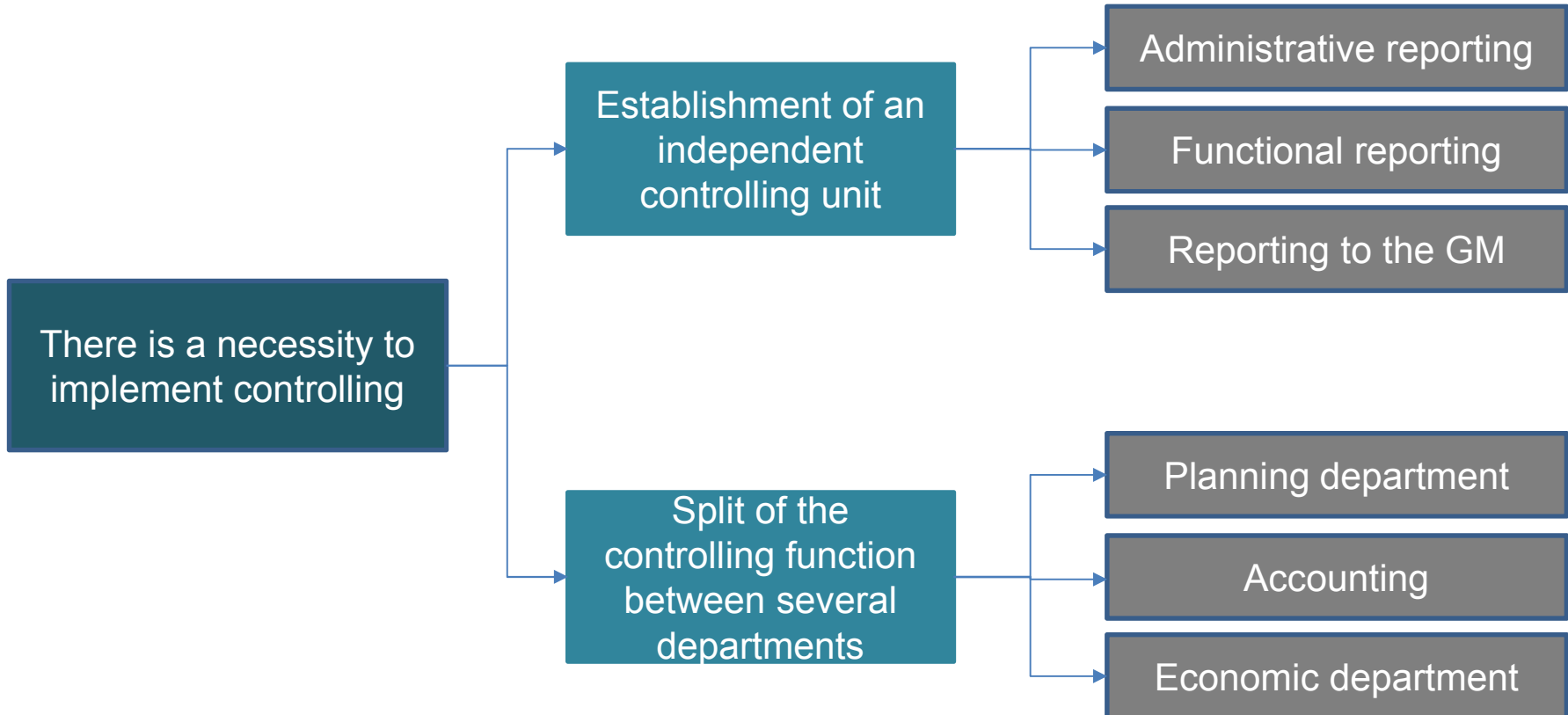
Bottom-up approach



- All departments/business-units have their plans that are later consolidated and compared with the plan developed top-down

4 Controlling institution

Depending on the size of the company controlling can be performed within independent department or spread between several units



There are pros and cons of having controlling as an independent unit within the company

ADVANTAGES

- There is one person (controller) who is responsible for the whole function
- Concentration of the financial information in one place – possibility to get it rather quickly, if necessary
- Possibility to quicker implement the unified standards, rules in planning, control, accounting, and internal reporting
- More efficient coordination between different departments

DISADVANTAGES

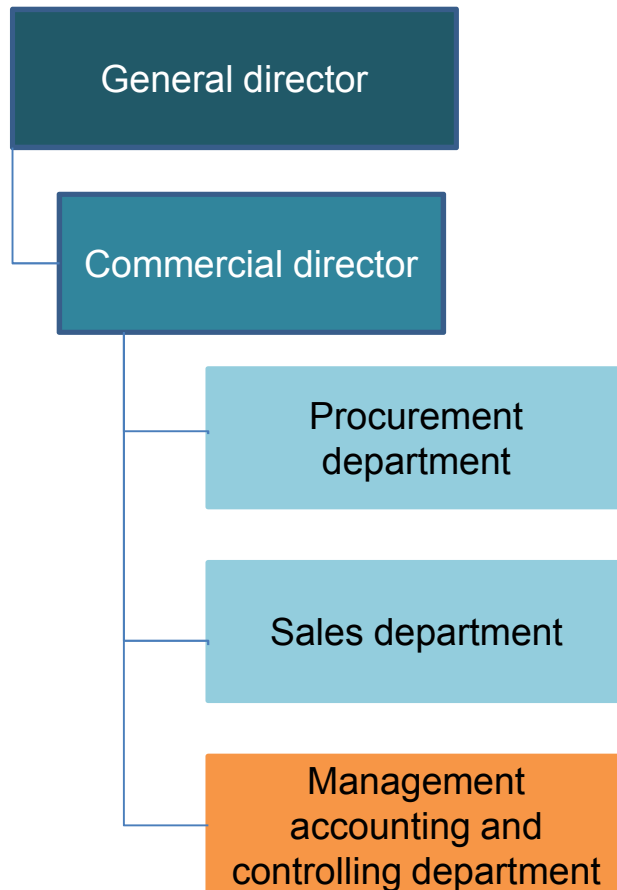
- Reluctance of the people to accept the changes in the organizational structure
- Resistance of the people who will be deprived of some functions, and who will get some new functions instead
- Lack of the specialists who can fulfill all the functions of the controlling – additional costs to teach the employees
- Possible increase in the influence of controlling department
- Increase in the FTE number

Necessity to establish an independent controlling department will depend on the size of the company

4 Controlling institution

Small and mid companies usually don't have controlling department
– this function is combined with management accounting

Position of controlling in SME

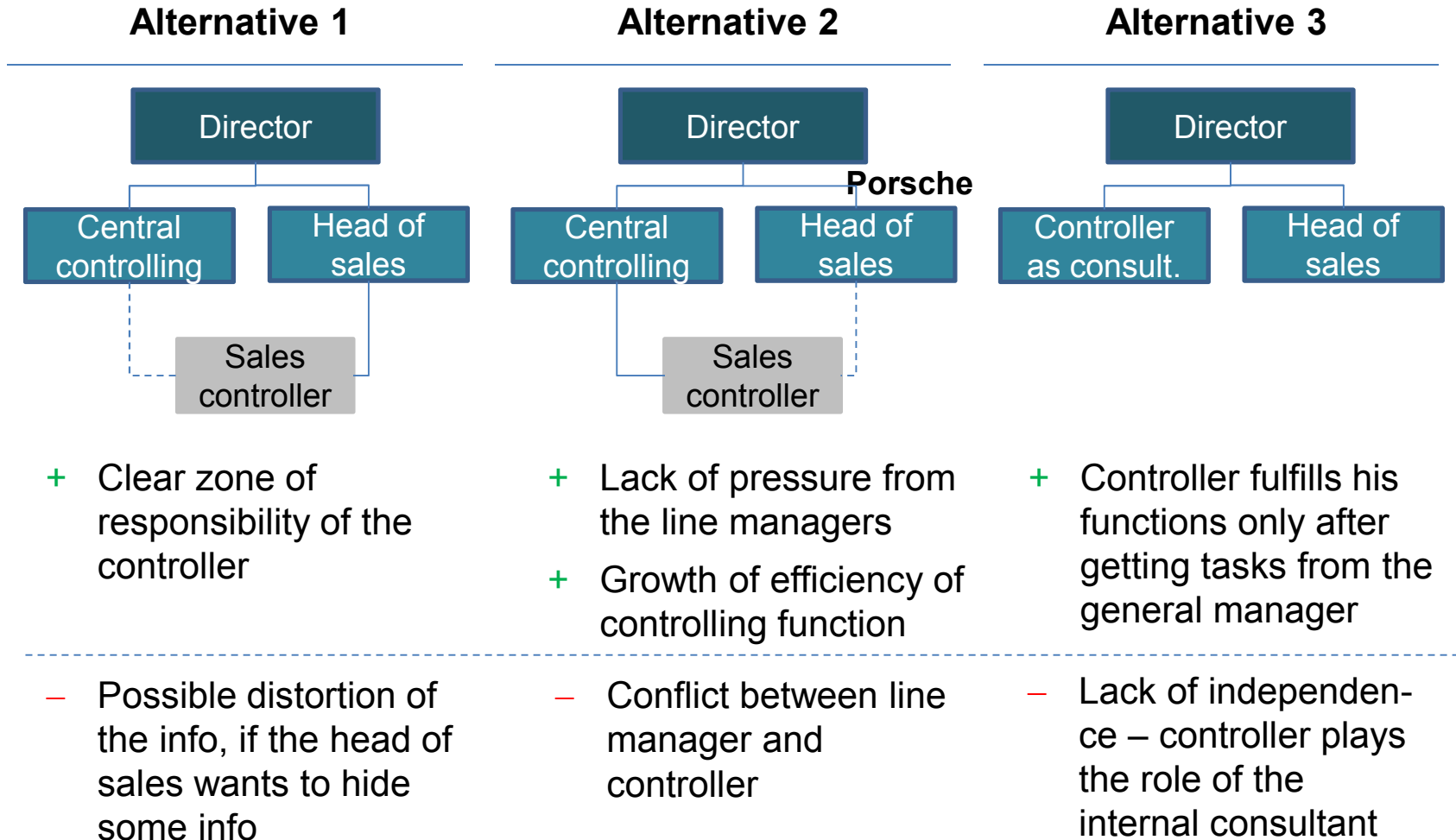


Comments

- The specialist who fulfills the functions of the controlling within small or middle-sized company usually:
 - Works in the department of management accounting
 - Reports to commercial director

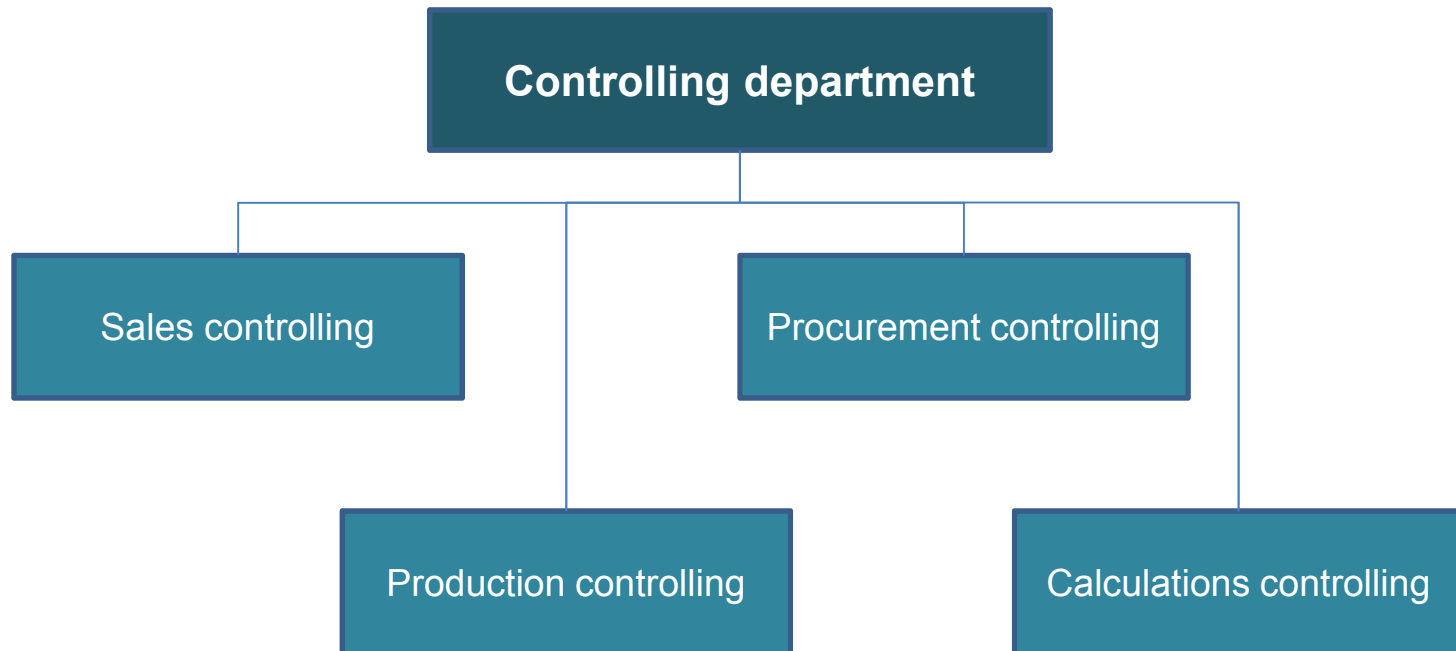
4 Controlling institution

Large companies have an independent controlling department – its position can differ depending on the company



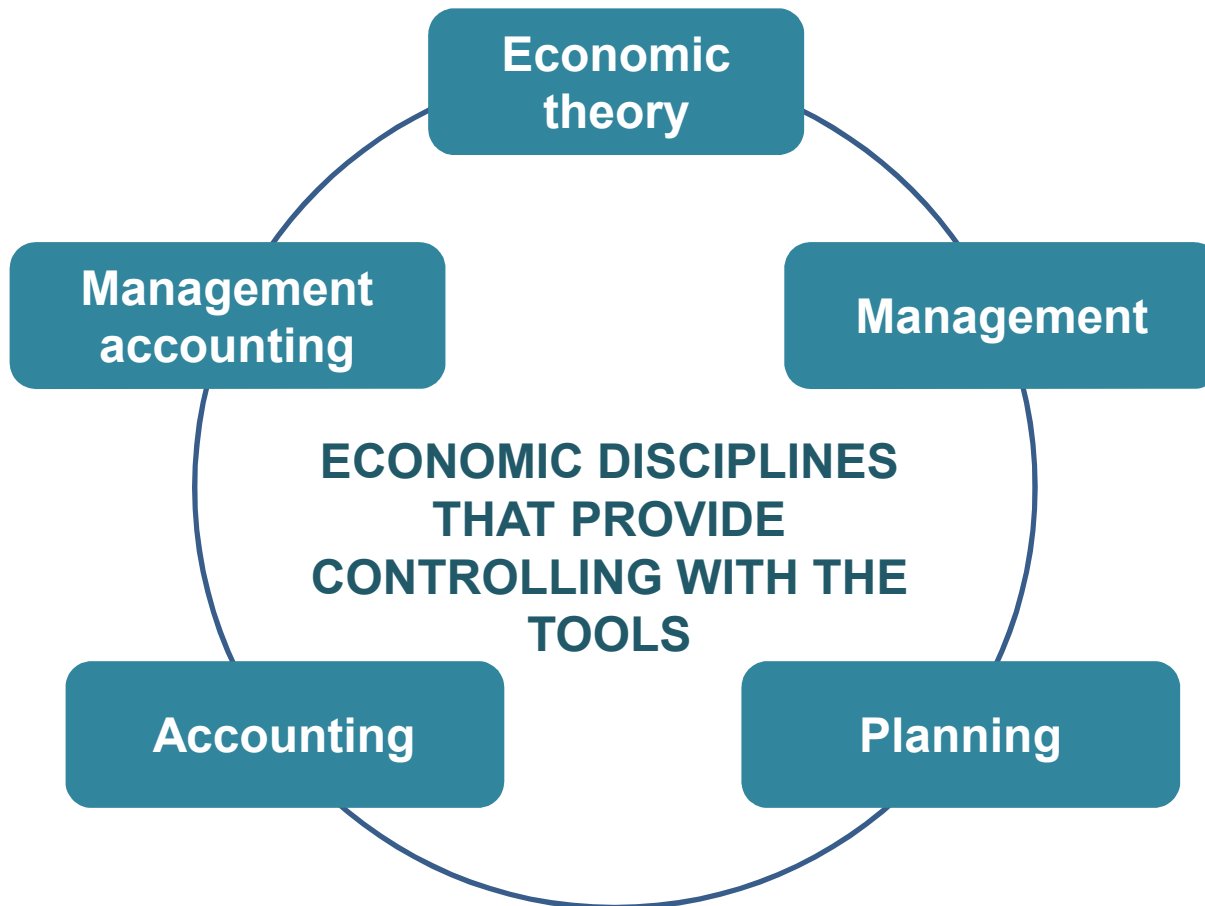
4 Controlling institution

Centralized controlling department usually has the controllers specialized in different functions



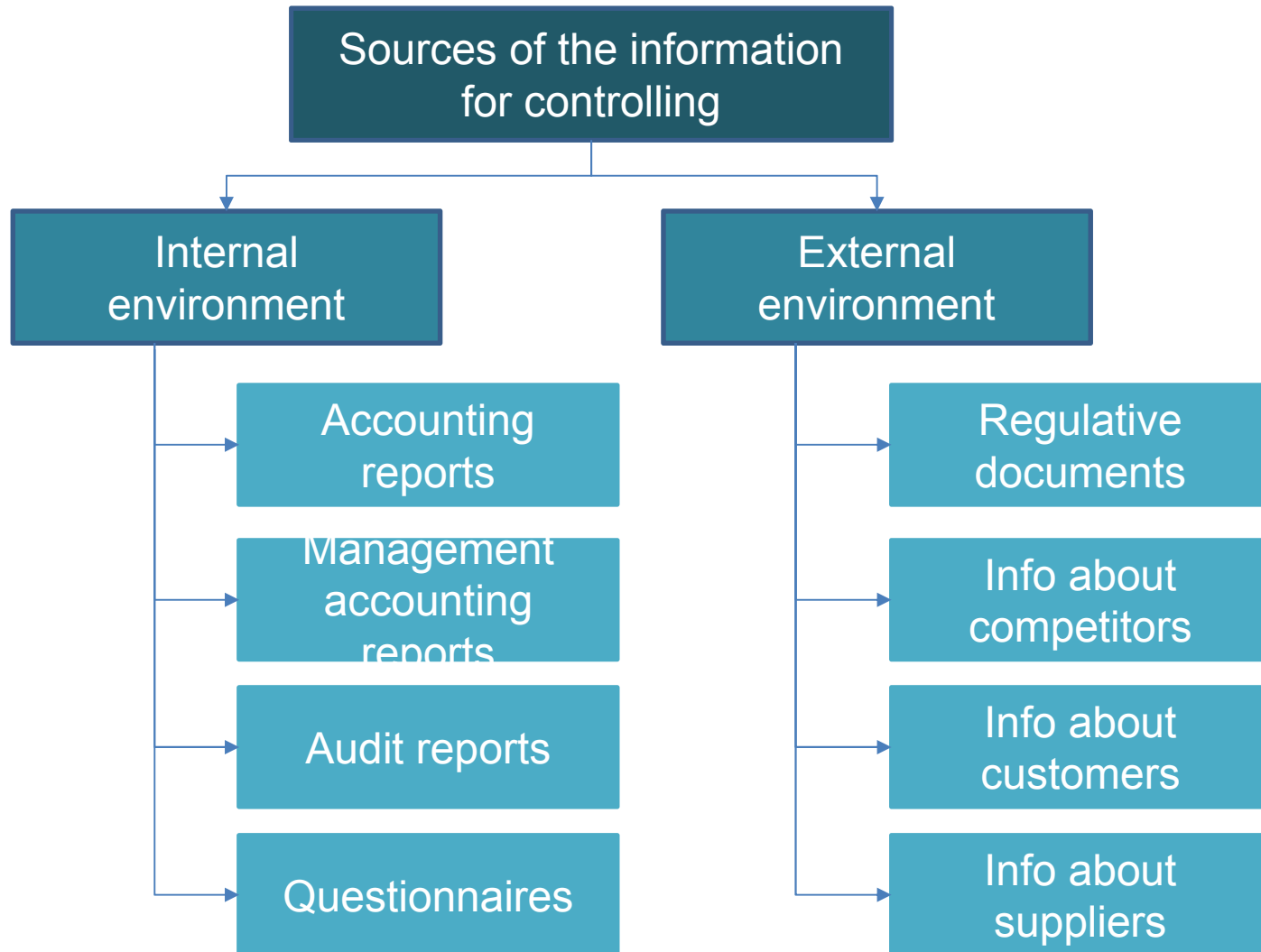
5 Controlling tools

To fulfill its function controlling uses the tools borrowed from several economic disciplines



6 Information and systems application

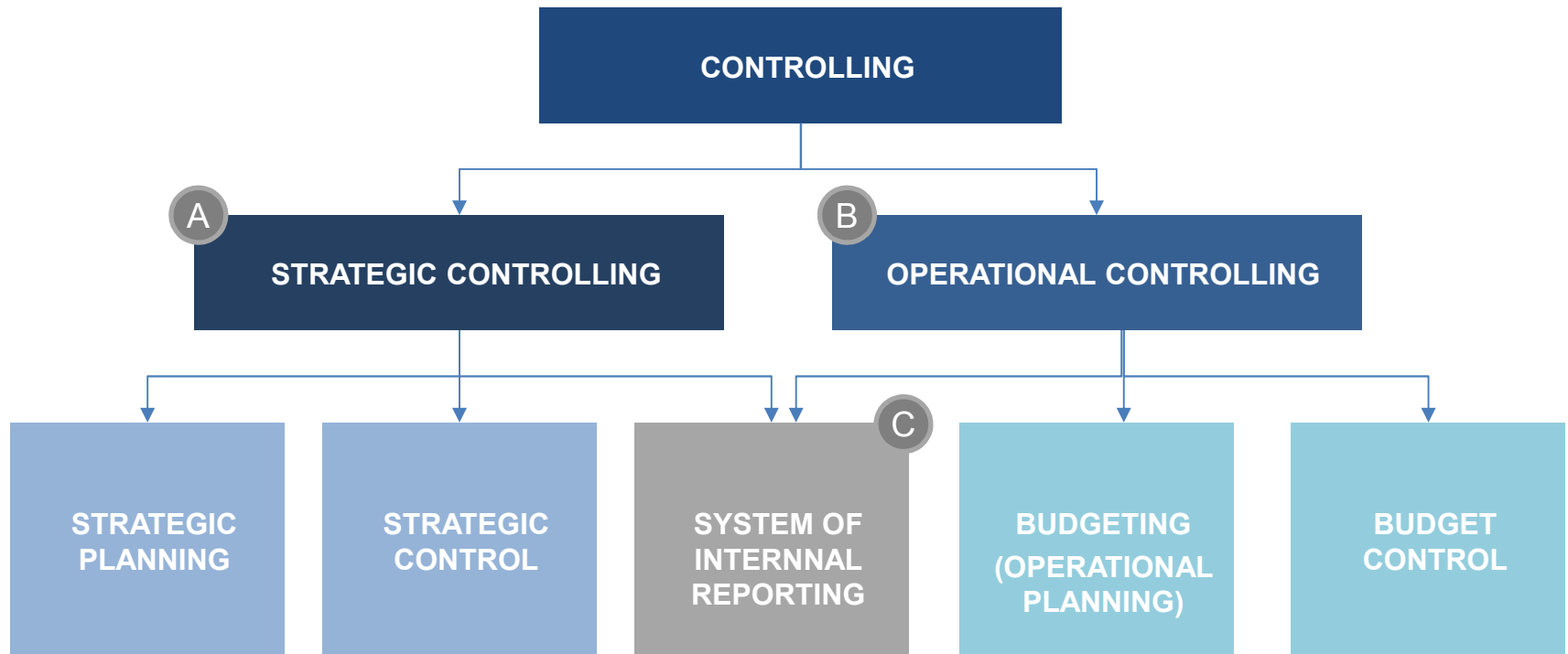
Controlling uses different types of information: from accounting reports to info about competitors, customers and suppliers





3. Types of controlling and their specificity

Depending on the level of decisions that controlling supports there are strategic and operational controlling



There are several differences between strategic and operational controlling

| | Strategic controlling | Operational controlling |
|-----------------------------------|--|---|
| Level of decision making | <ul style="list-style-type: none">• Top-management | <ul style="list-style-type: none">• All levels with the focus on middle management |
| Time horizon | <ul style="list-style-type: none">• Long-term perspective | <ul style="list-style-type: none">• Short-term perspective |
| Focus of controlling | <ul style="list-style-type: none">• Future perspectives | <ul style="list-style-type: none">• Supervision of the past results |
| Types of information used | <ul style="list-style-type: none">• Information about external environment | <ul style="list-style-type: none">• Internal data |
| Main indicators to control | <ul style="list-style-type: none">• Share on the market | <ul style="list-style-type: none">• Profit and profitability• Production results |
| Controlling institution | <ul style="list-style-type: none">• Self-control | <ul style="list-style-type: none">• Controlling unit |

A Strategic controlling

The main goal of strategic controlling is to help management do the right things

MAIN GOAL

- **“DO THE RIGHT THINGS”**
- Help the company to use its potential
- Consult the top-management in the process of strategy development, and determination of the strategic targets and tasks oriented towards long-term goals
- Determine the targets and tasks for operational controlling

TASKS

- Set up the goals of the company
- Guarantee sustainability of the company's activity
- Compare planned and actual results of strategic goals achievement and analysis of the reasons for deviations
- Make decisions in the investment, innovations
- Analyze internal and external environment

MAIN KPIS

- Strategic goals
- Indicators relevant for internal and external environment

MAIN TOOLS

- Competitors' analysis
- Analysis of the markets
- Analysis of the product cycles
- SWOT-analysis
- Balanced Scorecard
- BCG matrix
- Strategic cost management

B Operational controlling

The main goal of operational controlling is to help management do the right things in the right way

MAIN GOAL

- **“DO THE THINGS IN THE RIGHT WAY”**
- Coordinate the processes of operational planning and control, accounting and reporting in the company
- Help the managers to reach the planned targets oriented towards the short-term goals

TASKS

- Develop the budgets of the business-units/departments, company
- Set up KPIs and determine the weak points in the management
- Compare planned and actual results and identify the deviations
- Analyze the reasons for deviations
- Form the information flows to make operational decisions

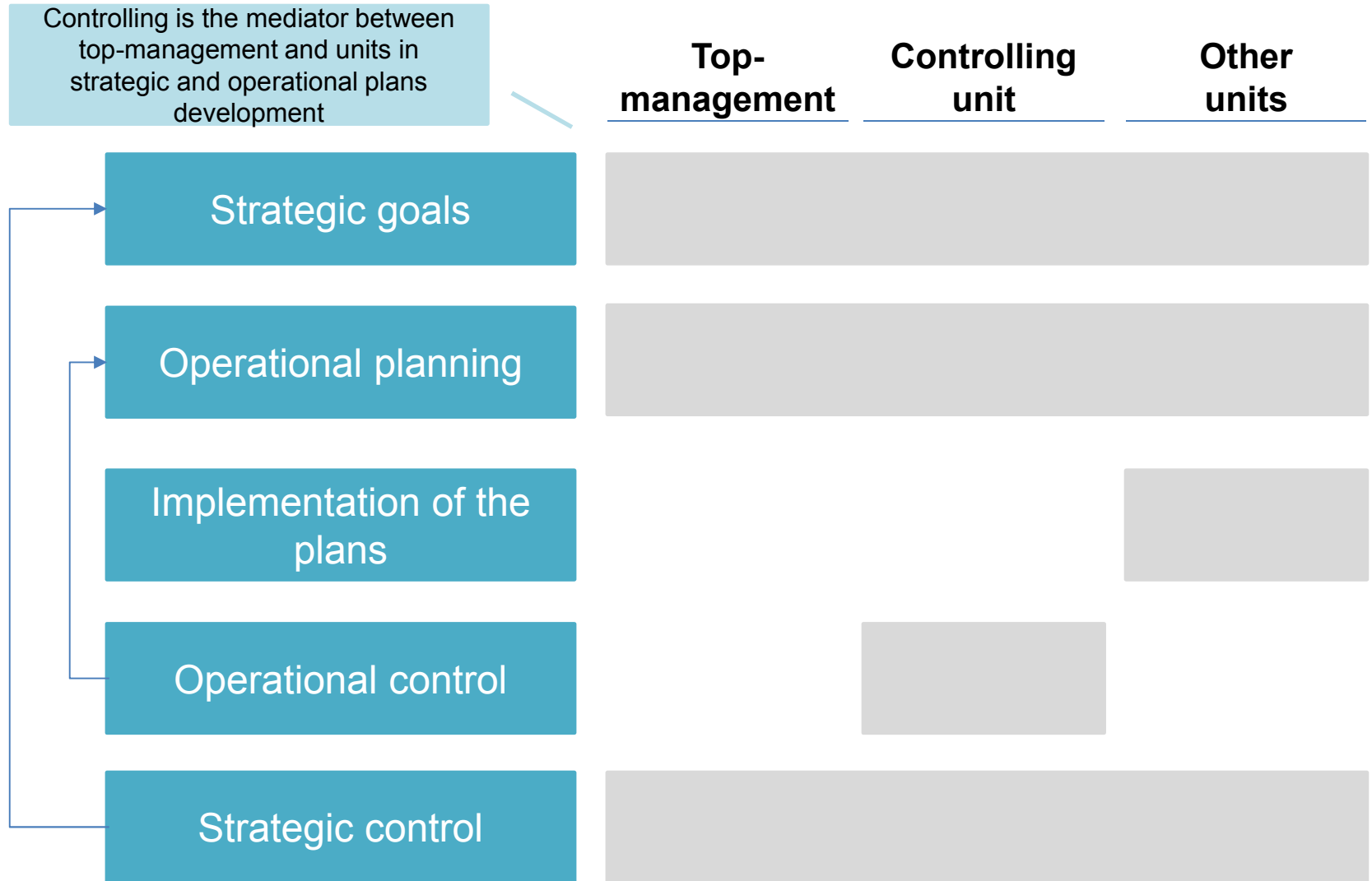
MAIN KPIS

- Workforce productivity
- Assets liquidity
- Return on assets
- Return on equity
- “Cost-Volume-Profit” ratio

MAIN TOOLS

- Budgeting
- Discounted cash flows calculations
- Other tools based on the management accounting

Strategic and operation controlling are interlinked – controlling is a mediator in the area of strategic and operational planning



Internal reporting system as a part of controlling should comply with several requirements

Controlling is the main supplier of the information for the management. The information within internal reporting should comply with several requirements:

- **TARGET ORIENTATION** – to be oriented on a particular client
- **OPERATIONAL EFFICIENCY** – to be supplied on demand
- **COMPLETENESS** – internal reporting should contain the information, that allows to form complex, adequate picture about the activity of the company
- **FLEXIBILITY** – contain information for the managers of different levels
- **COMPLIANCE WITH THE LEGISLATION**