

## Review

# Controlling as a useful management instrument in crisis times

Veselin Perovic<sup>1\*</sup>, Branislav Nerandzic<sup>1</sup> and Aleksandra Todorovic<sup>2</sup>

<sup>1</sup>Faculty of Technical Sciences, University of Novi Sad, Serbia.

<sup>2</sup>Hemofarm – Stada, Vrsac, Serbia.

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Controlling knowledge is in great demand in this crisis times. More and more people are willing to learn about controlling as well. It can be said that it is a connection between the global financial crisis and the growing demands on the controller's services in a global market. 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. To reach the mentioned duty, the controller has to be sure that he or she has an organizational support from the top management. Controlling outlines business policy of an enterprise, the term derives from an English word -to control- control, managing, setting rules and directing. It includes the tasks of management planning and business processes supervision. Controlling as a term dates from the Middle Age, but not until 18<sup>th</sup> century in the USA, when a clerk who was responsible for keeping the balance of government budget appeared and was called comptroller. In Europe, controlling became a more serious topic of conversation in the 1870s mostly in German speaking countries. Controlling can be described as a navigation process towards set goals of an enterprise or as an economic consciousness of an enterprise. This study defines it as a subsystem of managing which coordinates planning and control, and provides information, creates and links the system, oriented towards result. Based on the organizational investigation, primarily the finance departments in our enterprises, it comes to the conclusion that the current situation in most enterprises is that there are sectors or plan and analysis departments which deal with analyzing the things that happened and cannot be influenced on. 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, only if it puts efficient controlling 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. Constant application of operational and strategic controlling instruments will assure the improvement of the situation on the market, as well as the realization of set goals and will ease the process of making decisions. If the methods of controlling are applied, the work can always be correct and successful, because the data obtained that way, are always used for predicting, and fast reacting to the noticed problem.

**Key words:** Controlling, operational controlling, strategic controlling, financial statements.

## INTRODUCTION

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 (Deyhle et al., 2010; Horváth, 2009). To reach the mentioned duty, the

controller has to be sure that he or she has an organizational support from the top management. Having knowledge about a company ensures that we can compare with perception of something that takes place in the brain. It is a result of thinking. But it needs knowledge about the range of management performance structures. Even so, that's not enough. Communication was needed.

It is the controller who needs to provide managers with

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\*Corresponding author. E-mail: [veselin.perovic@gmail.com](mailto:veselin.perovic@gmail.com).

service that enables them to understand what lies behind the presented figures. Implementing the controlling philosophy in an enterprise ensures that plans are being implemented properly. In the functions of management circle - planning, organizing, directing, and controlling - planning moves forward into all the other functions, and controlling reaches back (Horváth and Gleich, 2007). Controlling is the final link in the functional chain of a management's activities and brings the functions of a management cycles, full circle. For all the reasons mentioned above, managers have the task to create an environment in which employees could achieve the enterprise's goals and own personal goals, too (www.fei.org). The purpose is to achieve as much as possible with available resources. For that purpose, we need rules of conduct and the game rules for the moderation process by means of which win-win solutions can be found, by implementing a controlling philosophy. The basic task of controlling is, to make the enterprise more profitable (Deyhle et al., 2007), and is also the orientation towards the future which means constant learning and improvement. Before moving on to a review of a possible modern organization of an enterprise which has controlling, it is necessary to say something about the concept of controlling itself which is very difficult to be defined. In the study opinion, the most acceptable definition, according to Dr Deyhle, is the following: "Controlling is the navigation process towards economic goals, where managing, definition of position is performed according to the established order and plans monitoring." (Deyhle et al., 2010) the definition according to same author can be described as: "The role of a controller can be compared with the one of a navigator on the ship. He helps the captain to reach the goal by overcoming all the obstacles and giving the instructions, which way to take to reach the goal." Next definition describes controllers job as an assistance to manager "to, take accounting out of its strait jacket so that it can be used by practical management" (Horváth, 2009). When one systematizes the attempts of defining controlling, then there is a distinction between the definitions which sees the controlling as an institution and those seeing it as a function.

The controlling as an institution mostly includes a controller in an organization, his education, competence and duties. Controlling as a function must be differentiated from the term controlling with the one in control, because control represents only one aspect of the controlling function (Weber, 2008).

When the English term "to control" was used to explain the controlling, then by that, it means managing, behaving or regulating an action which can be achieved by a systematic connection of planning, understanding of a current situation and control (Internatoonal Group of Controlling – IGC, 2005). Lately, in the professional terminology, talking about control started to appear, which can be described as follows: "the main goal of a

controller function consists of the evaluation of all business activities of an enterprise, from the financial point of view" (Weber, 2008). The assumption for this task is the adequate planning and the information system. That is why these two functions are closely connected with the control function and represent its integral part, but, here is something that originally cannot be united in one department and we think that a part which deals with planning should be part of a financial department's function, and the part dealing with control should be independent from the financial department and directly responsible to the management of an enterprise. The positive thing is that the theoretical explanations more and more include the information about control in finance and that the organizational schemes, which consisted of plan and analysis department as a part of a financial department, have been overcome. Some authors predict the control to be in the finance department for middle and large enterprises (Horváth, 2009). In this organizational scheme, in finance department there would be an analysis part, which would deal with the analyses of a balance sheet, statement of income and other internal and external financial analyses. The unit so called "Systems" includes the work of planning and developing the strategy, flow of information, data bank, and the choice of computer equipment and system application.

The unit so called "Control" would include the following activities: the control of conducting the business policy and the program, making instruction books for new control activities and reporting on the legacy of business operations. It should be said that the analyses tasks are directed to the achieved things and the organization of modern controlling would be directed to present and future, so, a modern financial manager and other managers in an enterprise can bear in mind the goals of profit realization, financial security and rational enterprise liquidity.

Today's accounting reports, done two months after the end of a business year, cannot assure an action towards the realization of an effect for the past period (Krause and Dayanand, 2008). Controlling, as a rule, does not have time limits, but it is done constantly in keeping with the real needs and the system of internal control of an enterprise. The information obtained this way provides action in actual time, both in realization of increased effects and elimination or decrease of negative appearance influence on business operations. Larger number of institutes and authors in European countries and America, deal with the organization and controlling application. In addition, the study will give a brief review of certain attitudes about the place and the role of controlling in an enterprise. 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 (Horváth, 2009):

a) Where is the enterprise now? Is study position good or

- bad? (forecast),
- b) What are the problems we need to focus our attention on?
- c) The way and suggestions for solving the noticed problems.

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. That means it operationally monitors the process together with the short term forecast of the occurrences in business (Weber, 2008). Then strategic controlling, which deals with the future up to five years time, means that, based on the data of operational controlling and other analyses, prepares long term forecast of the enterprise's business operations (Perović, 2004). According to this thinking, it can be emphasized that the controlling function represents management's need and a task and makes a difference between a manager and a controller. A manager chooses a goal and a controller gives advice on how it can be achieved. A manager is responsible for making decisions and their accuracy. A controller informs a manager how that decision will affect the profit realization, the financial security and the liquidity of an enterprise (Deyhle and Aiselmayer, 2007). Bearing in mind the fact that, a controller has the business operations indicators in front of himself, because he has to take into consideration a wider environment. That's why it is very important that both manager and controller cooperate and work together.

A good controller has to be able to recognize such problems, especially when his conclusions are based on firm facts, which he obtained by reconsidering the parameters of an enterprise's business operations (Kück, 2009). In these conditions, the associates have to be able to reconsider their behavior and to bear in mind the fact that the enterprise does not pay their salaries for the time spent, but based on the effects and their work. The effects of business operations can be increased in a short period of time by the implementation of controlling instruments. In order to reach this stage, it is necessary to establish the controlling system and the competent executives as well as to organizationally locate controlling, so it can successfully accomplish its tasks.

## **BUILDING UP A CONTROLLING SYSTEM**

As mentioned earlier, it can be said that a management is

a process in which a manager has to do beside his or her daily work. Management job must be completely separated from the profession someone originally learnt during the applied studies or during the technical training. Being a manager is not confined to any particular level or rank in the company's hierarchy. Beyond that, organization of a controlling in an organization must concentrate on the concrete job description the person has to fulfill in other departments: sales, production, development, purchasing or in administration. This is also applied to the controller's job. The definition of objectives and agreeing upon these objectives is part of the controlling process. Controlling system is simply not feasible without objectives. Planning strategies, measures and budgets is part of executive planning. In that meaning, we can say that our plan determinates the way we have to take to achieve the agreed objectives. Controlling means: "*being on the way to our objective*" (Deyhle et al., 2010). In order to achieve the agreed objectives, interim targets are needed to steer toward an objective. Variances are the signal for correction. Variances are the goodies in controller's work and not proof to guilt! Controlling follows the medical principal of anamnesis, diagnosis and therapy.

Anamnesis: Where does it hurt? This includes an analysis of whether the signals (figures) are right? Diagnosis: Why does it hurt? Here, the study needs analyses and research. Controllers as interpreters together with the managers have to find the reasons to learn what to do. Therapy: take 3 a day. The therapy is action paper, the list of measures to take along with responsibilities and deadlines that should essentially come from the manager; the controller provides support by taking minutes and translating measures into figures. For building a successful Controlling system, more operational and strategic Controlling instruments can be used. One of the most useful strategic Controlling instrument can be the implementation of Balanced Scorecard ([www.bscol.com](http://www.bscol.com)). Balanced Scorecard (BSC) represents a method by professors Kaplan and Norton. The first findings were published in "Harvard Business Review". The task to work on a development of new methods, and ways of measuring the performance (performance-measurement). That was the basic starting point during the conceptualization of BSC idea. As an accessory tool, "the strategic matrix" was taken into consideration, because it helps in realizing the perspectives of an enterprise and choosing the most important ones among lots of possibilities (Freidag and Schmidh, 2009). The purpose of enterprise existence has to give the answers to the questions of what picture of us should our customers (users of the services) have to have. The question of associate's quality that has to meet the demands of the users is of the highest importance. The goals are practically achieved by the employees. In that sense, all available staff potentials have to be engaged in order to put balance scorecard

(BSC) in practice, because the associates are more important than the data. If the associates were not wanted to be in a situation which would look like a chaos, there is need for measurable goals so that it can work efficiently and in that sense, the numeric indicators can be useful. Intellectual capital is the most valuable in a modern enterprise. It can be said that the financial capital is not the only so called “development drive” but the knowledge and associates skills have to be valued in a proper way (www.mycontrolling.de). Because of that, associates individual goals are built in accordance with individual power of each employee, his ability to identify himself with the enterprise goals, and in position and influence on strategic goals. Where are we at the moment and where would we like to be? Decrease the paper work and simplify the communication (Vollmuth and Zwettler, 2008). Make a clear communication between the basic values. The basic value is stable element “anchor” which gives answers to questions: Why is an enterprise positioned on a market? Why do we exist as an enterprise? It is necessary to create an integration of all employees in an enterprise separate goals and that way, they will be more easily achieved in future. The study suggest more detailed observation of the following elements: Define the strategic horizon. Which production cycles can be expected in the profession? What is that offer to a customer (why would he tie his future to us)? Through future existence vision, the attention should be paid to the questions: What will the enterprise achieve in “x” years’ time? What is the most necessary for surviving on a market (minimum)? Which standards does it aspire to? What are the possibilities (maximum)? Which decisions needs to be taken today, and which can be left for tomorrow? What are the decisions that have to been prepared for? What needs to be prepared for? Define clear indicators for monitoring vision realization. Observe the strategic coordinating system in more details. It is necessary to direct strategic issues in order to achieve set goals, if it is possible. Choose four topics and focus on strategic actions towards them. What are the critical points in making decisions? What are the most important levers? Choose one indicator per each strategic issue. Present strategic issues in tabular form. Present developing fields in matrix which have to be filled with the ideas of how the actions will be conducted. Collect structural ideas because of directing to: goal – action – indicator. It can be said that BSC is one very powerful strategic controlling instrument which can serve the management to monitor the flow of total business operations and rely on it. But, before the implementation of BSC as a strategic controlling instrument, we have to build up a controlling department. This is further discussed.

## **CONTROLLING ORGANIZATION IN A BIG COMPANY**

The first dilemma of organizing the controlling in an

enterprise, is a decision where can be its place in an organization. That mostly depends on the way internal division of work is done in an enterprise (departmental division of work), on the size of an enterprise and its business structure, as well as on the location of work processes realization – one or more locations, in connected or indented process.

If the managing of an enterprise is decentralized, one can head for the decentralization of controlling and vice versa, if the managing is centralized, one will head for centralization (Deyhle and Eiselmayer, 2007). The level of controlling independence depends on its location in an organization of an enterprise as well as on its subordination to the sector it belongs. In the study practice, the way of internal control is differently established. Where it is organized, it is most often a part of a financial department, which means that a control is based on the financial data and evidences. Prof Rankovic thinks that in smaller and middle size enterprises, all financial businesses and controls are focused on the functions of a financial manager, who is on the top of a pyramid, as the main superior and main, responsible for managing the finance of an enterprise. Some reasons for locating of controlling and its status in a system of an enterprise are emphasized, and they are as follows (Perović and Todorović, 2008):

- a) For a centralized controlling; if it is a small enterprise, the control uniqueness;
- b) For a decentralized controlling; the problems can be analyzed more easily and eventually solved on the spot, low level of bureaucracy in regard to centralized controlling, unloading of central functions and the work oriented towards immediate receiver of the information and the control suggestion.

As an example of centralized Controlling we can use a Controlling organization scheme of Hemofarm Group. This was an organization scheme of Controlling at the beginning phase of implementation, which is shown in Figure 1. The first questions of choosing the most suitable form of organizational structure for a controller unit already becomes relevant in medium-sized. However, it only becomes really important in big companies, which is shown in Figure 1. But, it must be said that some words in the following explanations are based on Hemofarm’s experiences at the beginning phase of implementation of controlling concept. The starting point in organizational design process was a dilemma on how to distribute controller tasks. This includes dividing up tasks between central and local controllers units, than, dividing up tasks within controller units at the same level, and, dividing up tasks between controller units and other management service providers (for example, internal auditing or business development departments). In this example, the distribution of controller’s unit’s competences is derived from the tasks they perform and encompasses their position in the hierarchy as well as the reporting

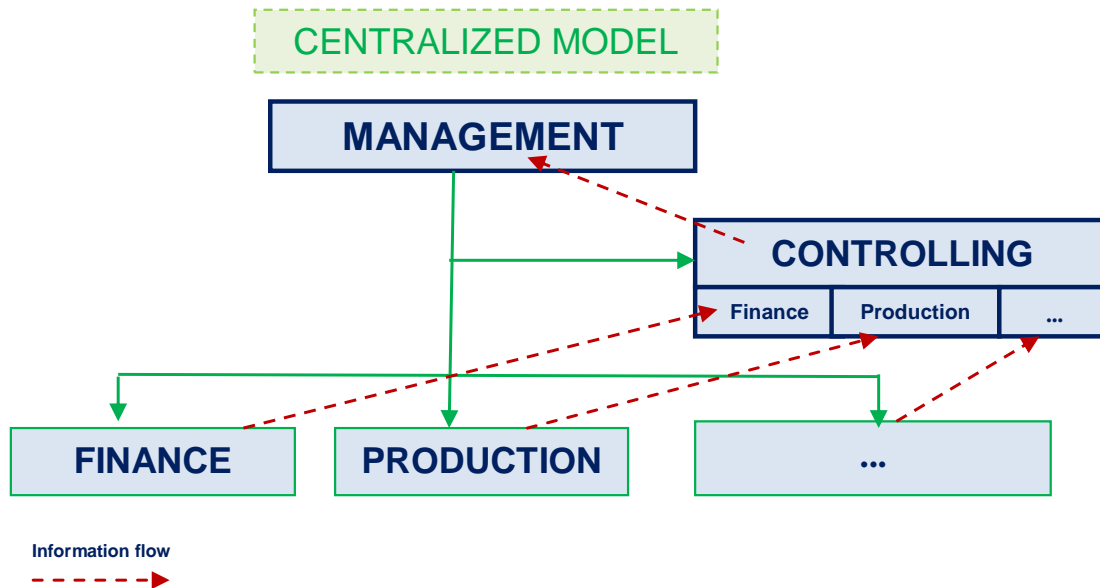


Figure 1. Model of centralized controlling (Stada - Hemofarm Group).

structures, both within the controllers units and its relation to management. The enterprise, which accepts the controlling concept, its distinctive feature being that a controller is firstly responsible for a correct presentation of the data and a suggestion of measures for the business subject to do business successfully. At the second phase of Controlling implementation in Hemofarm Group, it can be seen that there was a migration from centralized to decentralized controlling as shown in Figure 2.

The progressive decentralization of controller units has mirrored the trend seen in big companies over the past few years whereby, more responsibility is delegated to local units (Weber, 2008). According to experiences in Hemofarm Group, migration from centralized to decentralized controlling is made among problems with centralized controlling which was too dominant and causes variety of problems of acceptance among managers. On the one hand, it may duplicate work when working on checking and interpreting information from group's subsidiary companies. Local controller would be tempted, for instance, to include buffers in there, for example, proposed operational budgets. On the other hand, there might also be re-delegation of local decision making rights if, as a result of informational dominance, only central controlling reports on business developments in the group companies while those actually responsible are not heard. The answer of mentioned dilemma may be the intention that the centralization of controllers tasks should be minimized and activities close to the business (for example, such as operational planning discussions), should be delegated to local controllers. As a result, ability for solving the noticed problems has to come from

it, and that can be achieved through:

- a) Preparation of decisions (which is achieved by using the economic analysis data);
- b) The responsibility for the accuracy of suggested measures (in order to achieve the results, it is necessary the qualified people to conduct them).

Regarding to internal structure of controllers units, two questions receive the greatest of attention in the practice of controlling:

- i. Which is the dominant structural aspect on the subdivisions of controllers units: functional, divisional, or the combination?
- ii. Are the tasks of cost controlling, financial accounting and strategic planning integrated into the controller unit organized in separate units? Which special functions do controllers perform?

Figure 3 shows an example of internal structure of controlling department in the internal structure of controlling units in Hemofarm Group, which includes twenty-five employees. It is necessary to bear in mind the fact that a controller cannot be responsible for the realization of the suggested measures, which is primarily the task of the enterprise's management (Vollmuth, 2007). Planning is conducted in separate departments, a controller is there to help, in other words, he is there to suggest to the management, the measures that have to be taken in future and which are based on the analysis of the results from the past. It can be said that controlling and book-keeping are two different functions,

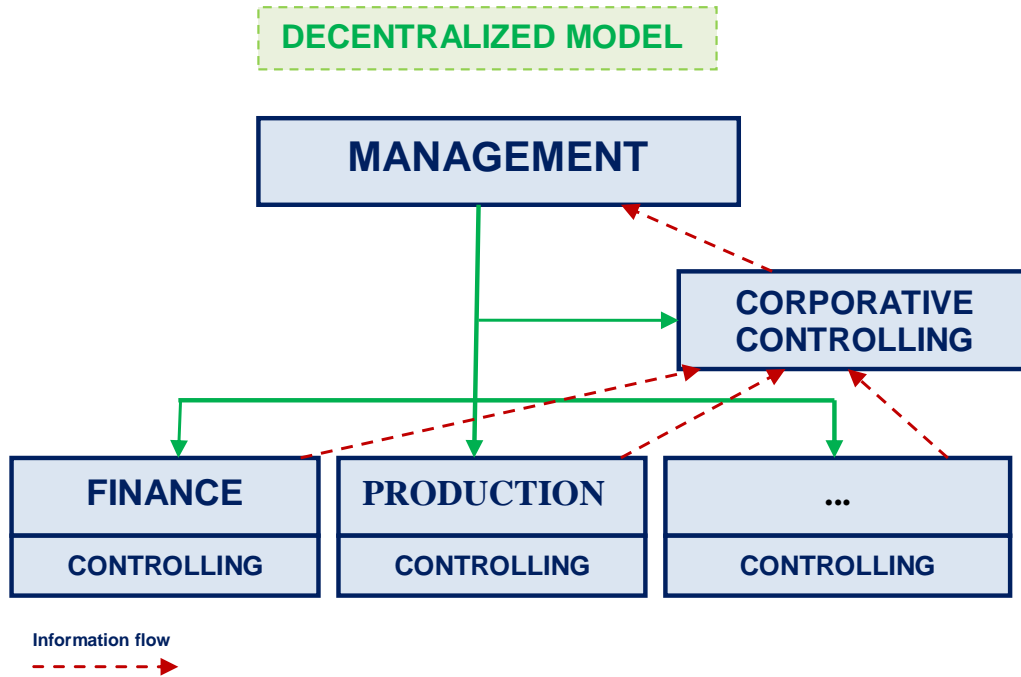


Figure 2. Model of decentralized controlling (Stada - Hemofarm Group).

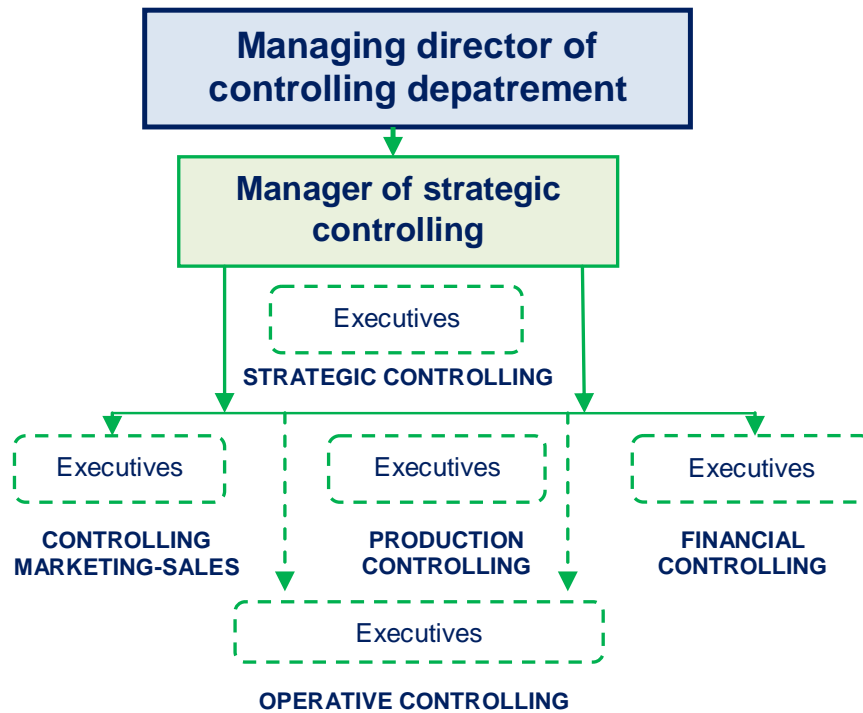


Figure 3. Internal structure of controlling department (Stada - Hemofarm Group).

because the practice showed that a good book-keeper is a bad controller, because he is too precise and therefore,

he is overloaded by details, while a controller cannot deal with small details, but has to be an expert who knows an

enterprise, accounting as well as a market (Horváth, 2009; Weber, 2008). Furthermore, it is very important that the top management confirms its goals taken from the suggestions that controlling gives. 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 (Kulpmann, 2005). Using the controlling, the management of an enterprise can effectively fulfill 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.

## SUMMARY AND CONCLUSION

Controlling knowledge is in great demand in this crisis times. More and more people are willing to learn about controlling as well. It can be sad that it is a connection between the global financial crisis and the growing demands on the controller's services in a global market. Managing of an enterprise is happening in a completely new ambient which requires the use of modern business operation instruments. Adequate and relevant decision making insists on understandable, reliable and comparable information. Therefore, an operative and strategic controlling instrument must be designed properly to be effective. Implementation of controlling philosophy must be designed to prevent future problems of an enterprise. Controlling almost does not exist, neither theoretically or practically organizationally, is known to managerial structures in our country. Therefore, by this paper, we suggest order of controlling philosophy. Verification of suggested controlling methodology by its putting into practice will mean its constant self corrections towards higher added value of an enterprise. Organization of a good controlling department is oriented towards: "let's shape the future" (Dietmar Pascher, Controller akademie, Gauting-München) ([www.controllerakademie.de](http://www.controllerakademie.de)). Is the controlling an answer in this crisis times? Still remains the dilemma.

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