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## CONTROLLING AS A COMPANY MANAGEMENT CONCEPT

### Introduction

In Europe, the system of control-related management of companies appeared in 1950s in American businesses. The system was implemented mainly in Germany and France. In Poland controlling was introduced late in 1980s, since the companies of that time, run under the planned economy system (the latter being a command and allocation economy in character), simply did not need the said tool. All that changed with the outset of the market economy. In order to stay afloat in the market and improve their competitive edge, the companies started to modify their management systems.

The challenge in question could have been met thanks to the establishing of a base of data and methods necessary to make proper strategic decisions [Jędralska 2003, p. 48].

Numerous decisions are made within the company; they may refer to such subjects as: marketing, sales, organisational resources, human resources, financial resources, production, information resources, material resources. Controlling may encompass the above-mentioned business activities, allowing the executives to make proper decisions of operational and strategic character.

Controlling is a management concept that reflects all management functions: planning, organising, motivating, and reviewing [Lew 2004, p. 15].

The idea of controlling is to establish a logical system which will help to make proper decisions. It is possible thanks to its well-structured links between particular elements of the companies, being involved in the economic activity expressed in financial, economic, organisational and technical contexts.

One can therefore assume that controlling is a line of thought and action, being reflected in the form of decision-making procedures carried out by particular executive units of the company [Marciniak 2004, p. 13; Miśkiewicz 2017, p. 28 et. seq.].

Controlling may involve various areas of business, helping the executives take proper decisions of operational and strategic character. It is a management concept that reflects all management functions: planning, organising, motivating, and reviewing. Being a system of co-ordinated management of a networked organisation, controlling provides for establishing and fulfilling

of common or individual aims of its participants. The system, being satisfactorily rational, reflects the added value over a long-term period.

Controlling uses certain procedures and data derived from the accounting system. As an information system operating in the company with regard to its planning and directing, controlling significantly resembles accounting, and the management accounting in particular. The controlling and accounting share the same theoretical background. They need to co-operate, since each of them has its own tasks to be performed in the company.

In the organisation- and management-related system of the company, which implements the controlling principles, the management functions must be properly integrated and co-ordinated; otherwise the system will not be able to properly operate and support the decision-making process, with a consideration given to signs coming from the inside of the company, as well as its surrounding environment.

The implementation of controlling into the company requires an adjustment of the company's organisational structure to its new tasks. One should not forget about a proper location of the Controlling Department or of a controller in the organisational structure. The higher the location in the organisational structure, the greater the effectiveness of controlling.

Information is a basic precondition for the design of controlling. It should be comprehensible, credible and accessible at due time. Basic indicators, focussed on results, should be currently calculated and analysed, in order to provide for an effective management of the company. Financial indicators should be supplemented with non-financial ones, so that one may achieve a comprehensive view on weaknesses and strengths of the company.

The purpose of the present article is to underline the importance of controlling, viewed as a concept of management in contemporary companies. The author has elaborated and implemented the controlling and budgeting systems in numerous companies and public financial entities. He held a post of a Vice-President in the Polish Society of Controlling. He has written several dozen papers on the subject, published in Poland and abroad.

## 1. Functions of controlling in the management process

The performance of tasks and accomplishment of anticipated objectives within the scope of controlling are to provide the companies with opportunities to survive and improve their competitive edge in the long-term perspective. The identification of controlling functions should be preceded by the determination of scopes and activities performed under **comprehensive** functions of management. Controlling being, as an information system, a tool for planning, organising and reviewing, should fulfil numerous functions; it integrates, among others, the following aspects: planning, organising, motivating, reviewing.

Controlling supports the decision-making process in the company through: activity planning, managing and reviewing of achieved results, informing, motivating.

In the organisation- and management-related system of the company, which implements the controlling principles, the management functions must be properly integrated and co-ordinated; otherwise the system will not be able to properly operate and support the decision-making process, with a consideration given to signs coming from the inside of the company, as well as its surrounding environment. A comprehensive use of controlling in the company reorganisation process should also take into account the "human capital" present in the company, who, as long as being active and well-informed, is able to ensure that all above-described functions of controlling may be fulfilled. Proper motivational system allows for the employees to remain involved in the performance of common goals. Thus, the staff participate in the determination and accomplishment of tasks of companies.

Controlling makes use of certain procedures and data from the accounting system. As an information system, operating in the company within the scope of planning and reviewing, controlling and accounting have numerous common points. Controlling employs the analysis of the most sensitive areas of the company [Marciniak 2004, p. 13]. However, controlling puts an emphasis on managing the company, which is explicitly non-existent in the management accounting. The systems of management accounting and controlling have a lot in common.

Theoretical backgrounds of these areas of science are the same. The areas need to co-operate with each other, as each of them has its own role to play.

## 2. Types of controlling

With regard to the timeline for setting targets and making decisions, one may distinguish strategic and operational controlling. The **strategic controlling** involves activities aimed at providing the company with a long-term operation, thanks to prior adjustment of the

company to requirements of the business environment. Decisions taken within the scope of strategic controlling result from general intentions and aims defined by the company's board of directors.

The following elements are the most frequently quoted tasks of strategic controlling, to be found in the source literature [Lichtarski 2005, ps.35-38]:

- reviewing and analysing information derived from internal and external environments,
- establishing aims and long-term tasks, carrying out a study of their feasibility,
- dividing long-term tasks into operational aims; checking their correctness,
- creating a system of information flow, supporting the decision-making process of the lower-level managers,
- monitoring and carrying out a prior assessment of strategic tasks, along with an analysis of potential opportunities and threats,
- identifying deviations,
- putting forward remedies and corrective actions.

Another, frequently cited division criterion is the **function-related** systematics of controlling, often referred to as **processual** controlling. The said controlling relies on various functions performed by particular cells in the company. [Jędralska 2003, p. 48] Such a division criterion is connected with the scope in which controlling is used in various areas of organisational structures. One can distinguish here: production controlling, logistics, marketing and sales controlling, HR controlling, financial and project-related controlling, R&D controlling.

## 3. Stages of controlling in the company

*S. Nowosielski* and *R. Marczak* [Nowosielski, Marczak 1996, p.109] claimed that controlling, viewed from the methodological point of view, should require to implement a series of analysis- and project-related works that may be defined, in details, in three stages:

### Stage I: preliminary findings related to:

- the acquisition of top executives' approval for the very basic idea of a new management system, which system significantly undermines deeply-rooted and proven methods of taking decisions,
- the determination of main targets set on controlling, which targets are to be fulfilled in economic centres,
- the creation of an implementation team,
- the preparation of the company's staff to face new organisational challenges, through a series of training courses aimed at informing the employees of the organisational matters, and the operation of controlling as a system based on a decentralised organisational structure of the company,

- the critical analysis of ongoing solutions, which analysis provides two types of information on the company: „hard area” (structures, methods, procedures, techniques) and „soft area” (attitudes of the executives and the employees, their systems of values, opinions of trade unions).

**Stage II: designing organisational changes related to:**

- the determination, in a detailed way, of aims, both strategic (elaboration and implementation of a system oriented towards decision-making processes) and operational ones (e.g. elaborating cost budgeting systems, activity monitoring, etc.),
- the general concept of the controlling system, in compliance with the following sequence:
  - aims => tasks => methods => procedures => instruments => documents,
  - a preliminary assessment and verification of solutions during a training session. The training session should involve unit managers and their deputies, playing active roles in the process of implementation and subsequent exploitation of a new system,
  - acceptance of the concept by the company’s board of directors,

**Stage III: implementation aimed at:**

- preparing for the implementation, that involves preparing detailed principles, documents on planning and settlement operations, and implementation schedules, based on priorly accepted and approved solutions,
- correcting solutions during the system operation, provided that at the first stage the operation of controlling has no payroll-related consequences to managers and employees. Combining assessment factors with the payroll system is performed in compliance with the old rules. That will certainly be changed in future, when new “game rules” are accepted.

The main purpose of the actions should involve the opportunity to make use of the company’s present information resources (located in the IT sources) for the sake of the employment of the controlling method. Equally important is to modify and extend the information resources so that one is able to gradually extend the application of controlling-related techniques and tools.

**4. Budgeting in the company**

It is becoming necessary to separate responsibility centres from the company, which centres feature defined competencies and tasks, while using budgeting mechanisms.

Maintaining a responsibility account results from the division of work as to managerial functions performed in the company. The implementation of responsibility centres allows to effectively use one’s economic, staff and organisational potential, which, in turn, contributes to a more effective operation of the company.

Budgeting makes use of a database acquired during the exploitation of the accounts of costs, particularly with regard to volumes and structures of costs in particular organisational units and of factors that influence their levels. This is a method of a current management of the company, determining the rules for planning and using of financial means in order to effectively perform production-related tasks.

The budget may be described as an action plan expressed in natural and value-related units, with a special emphasis on means for its performance and on a person responsible for its execution [Sierpińska, Niedbała, 2003, p.17].

Moreover, budgeting allows to delegate decision-related powers and responsibilities to the lower levels of the management. It also allows to maintain a common course of action for particular organisational cells.

An essential element of the budgeting process is the controlling of tasks being performed. Controlling in question is a process of constant review whether predictions turn out to be compliant with the economic reality, whether these two are coherent. Controlling allows to distinguish any deviations in the economic process and to remove them promptly.

**5. Implementation of controlling in the company**

In the company, of equal importance are managerial posts responsible for actions aimed at conquering new markets or actions covering the design of a new product or those that are involved in the performance of repeated functions.

Fundamental factors of basic budgeting are separated areas of the company, being known as responsibility centres (cost centres, profit centres). In modern companies, the responsibility centres should be managed by managers who have at their disposal a defined scope of power and responsibility. The key issue is to provide for an objective evaluation of the task performance.

The responsibility centre may be: a plant, department, division, unit, or a separated part of the company’s activity, provided that its manager was equipped with decision-related powers, necessary to perform tasks. The responsibility centre needs to have just one manager and one scope of tasks to be performed. Should the scopes be undefined and imprecise, and should they overlap the scopes of other responsibility centres, then there shall appear a dilution of responsibility, dualism in the decision-making process, and eventually particular areas of the company’s activity shall suffer.

The budgeting system in the company requires to identify responsibility centres as to: costs, revenues, profits and investments. The **cost centre** in the company is characterised by the following features:

- it is the lowest in the hierarchy,
- it manages the incurrence of costs,
- it has no direct influence on the sales volume,

- it may involve centres of administrative costs and other centres that are not directly connected with the operational activity.

The decision-making scope of managers in cost centres is limited to the powers to decide on production volumes, quality of products or services, and to manage, in a proper way, resources contained in the budget. The assessment criterion related to the tasks performance influences the costs incurred in the said centres, i.e. the ones that might be influenced by a manager of a given centre. The basic feature of the cost centre is the opportunity to plan and inspect costs upon the performance of tasks. Thus, our role cannot be limited to maintaining the cost records, without the possibility to achieve analytical information from particular responsibility centres.

The **profit centre** in the company may be characterised by the following features:

- it is located at the middle level of the budgeting system structure; it manages the occurrence of costs and earning of revenues,
- it does not affect the use of investment means,
- may encompass units responsible for sales and production.

The profit centre may consist of a few cost centres. The proper operation of the centre involves managing its revenues. The centre manager should be entitled to influence price policies, sales trends and volumes. The effectiveness of the centre should be measured by the difference between a value of net revenues and manufacturing costs of a product, service, i.e. operational profit or gross profit and a net profit.

## 6. Advantages related to the implementation of controlling

The advantages of the implementation of responsibility centres in companies consist of the following elements:

- introduction and development of a planning, controlling and managing system, dependent on results achieved by a given entity,
- creation of a better information system in the company,
- a stronger drive for employees and particular teams to achieve positive results,
- a managerial awareness evolving around activities which bring about positive results on the one hand, and which ensure cost-optimisation on the other hand,
- a better awareness as to cost-inducing reasons, their necessity, and also opportunities to carry out optimisation activities,
- a reliable calculation of costs and results,
- a faster reaction to diagnosed weaknesses of the company through the implementation of corrective actions or their elimination,

- a better motivation to achieve favourable results by joining the effects of the responsibility centre with, e.g. remuneration systems,

- a faster decision-making process, a better co-ordination of actions in the decision-making process,

- a shorter circulation of information, through the creation of a reporting system, adjusted to internal recipients of a given centre,

- a better innovativeness and responsibility of employees for the company's actions,

- a greater involvement of the executives in the direct decision-making process,

- a fast and effective provision of up-to-date information for the managers, and the acceleration of the decision-making process,

- a greater transparency of process creating values in particular responsibility centres, and bonds between them,

Organisational units as responsibility centres shall contribute to the shift of some competencies and entitlements onto line managers. Therefore, the management processes in the company are being decentralised. It is thus possible to react more swiftly to the changes in the company's environment. Furthermore, the company may be able to operate in a more flexible way, which adds to its competitive advantage in the market.

## Conclusion

The introduction of controlling into the companies is becoming a dire necessity. Managing the company in the conditions of a fierce competition is getting more and more difficult, as it requires the co-ordination and integration of particular economic links carrying out their processes and projects within the scope of their activities.

The implementation of controlling into the company brings about the decentralisation of decisions and responsibilities; it thus fuels a demand for defined information, the latter being a pillar of the proper management.

In the controlling-related management process it is extremely important to properly define the responsibility centre. Depending on the character of an activity, targets, tasks allocated to a given responsibility centre, one should define assessment factors that take into consideration various levels of decision-related independence and complexity of its management process.

Separating from the company's structure of centres of responsibility for action results is a complex process that requires a replacement of functional structures by matrix and divisionalized ones.

Budgeting forces the executives to present aims and enterprises in digits, e.g. revenues, costs, profits.

Information is a basic precondition for the design of controlling. It should be comprehensible, credible and accessible at due time.

Controlling is a tool that assists the management or reorganisation processes; however, one should mention here sources of uncertainties, such as: a proper selection of gauges, volumes of acceptable deviations, volumes of planning gauges.

The implementation of controlling into the company requires an adjustment of the company's organisational structure to its new tasks. One should not forget about a proper location of the Controlling Department or of a controller in the organisational structure. The higher the location in the organisational structure, the greater the effectiveness of controlling.

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### **Джвігол Х. Контролінг як концепція управління компанією**

Автор визначає сучасні концепції управління бізнесом. Управління розглянуто як система планування, контролю, збору і обробки інформації. Грунтуючись на власному досвіді в діловій практиці, а також на теоретичному досвіді в галузі управління наукою, автор пропонує впровадити сучасний управлінський процес з урахуванням принципів контролю. Представлено переваги реалізованого контролю (з методологічної точки зору) з урахуванням ряду аналітичних та проектних робіт, які були визначені в три етапи.

*Ключові слова:* контролінг, бюджетування в компанії, сучасні концепції управління, контроль процесу.

### **Джвигол Х. Контроллинг как концепция управления компанией**

Автор определяет современные концепции управления бизнесом. Управление рассмотрено как система планирования, контроля, сбора и обработки информации. Основываясь на собственном опыте в деловой практике, а также на теоретическом опыте в области управления наукой, автор предлагает внедрить современный управленческий процесс с учетом принципов контроля. Представлены преимущества реализованного контроля (с методологической точки зрения) с учетом ряда аналитических и проектных работ, которые были определены в три этапа.

*Ключевые слова:* контроллинг, бюджетирование в компании, современные концепции управления, контроль процесса.

### **Dźwigoł H. Controlling as a company management concept**

The author defines contemporary concepts of business management. It perceives it as a system for planning, controlling, collecting and processing information. Based on his own experience in business practice, and with the theoretical background in management science, he suggests the implementation of a modern management process taking into account the principles of control. The author presented advantages of the implemented controlling (viewed from the methodological point of view), with a consideration given to a series of analysis- and project-related works that were defined in three stages.

*Keywords:* controlling, budgeting in the company, modern management concepts, process control.

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