

## CONTROLLING IN THE ECONOMIC CRISIS

Dusan Baran

*University Central Europe in Skalica, Slovakia, dusan.baran@sevs.sk*

### Abstract

The rise of costs caused by the advance in prices, the unstable economic situation and unsatisfying economic development as well as the more intricate problems and increased competition in home and foreign markets constitute only a small part of the above-mentioned problems. In order they could be solved successfully, the traditional modes of management applied in companies are insufficient. The new conceptions, instruments, methods and techniques leading to an increase in the return and financial strength of companies and also to the achievement of two most important objectives – profitability and liquidity - are more and more frequently used. It is just the liquidity and maintenance of the financial insolvency which become very often a threat for the Slovak companies in the period of the financial and economic crisis. An important instrument which helps entrepreneurs to solve the up-to-day problems and thereby to ensure their long-term existence is controlling.

*Keywords:* management, controlling, price, costs, competitive, process, implementation, company, instruments, market.

### Introduction

In the period of the financial and economic crisis the business environment in Slovakia can be characterized by a large range of problems associated with the sales of production, consumption and decline in the employment, all of which can be hardly solved by common methods, management forms and instruments. The rise of costs caused by an advance in prices, the unstable economic situation and unsatisfying economic development, the more intricate problems and increased competition in home and foreign markets constitute only a small part of the above-mentioned drawbacks. In order they could be solved successfully, the traditional modes of management applied in companies are insufficient. New conceptions, instruments, methods and techniques leading to an increase in the return and financial strength of companies and also to the achievement of two most important objectives – profitability and liquidity - are more and more frequently used. It is just the liquidity and maintenance of the financial insolvency which become very often a threat for Slovak companies in the period of the financial and economic crisis. An important instrument which helps to solve the up-to-day problems of entrepreneurs and thereby to ensure the company long-term existence is controlling.

Controlling includes the introduction of systematic planning, the efficient control and continuous management of individual processes enabling the improvement of conditions for making decisions of responsible workers and simultaneously the lower measure of uncertainty. In general, controlling can be characterized as a system, the purpose of which is to improve the company management on the basis of objective records and the objective evaluation of all economic events in the company. The matter in question is the application and exploitation of all exact methods or mathematical algorithms on managing the company as well as the activity confirming a certain amount of intuitive thinking. Controlling permits an effective dealing with the information in the form of its collection, classification, processing and distribution and, at the same time, it ensures to prepare the information for solving the planning, decision-making and implementation tasks. In other words, it fulfils a great number of managerial assignments and allows one to achieve the expected objectives. The workers engaged in controlling are required to be fully acquainted with their company and also to be able to reveal the specificities of its individual departments and management instruments.

The **objective** of the article is to analyze the core of controlling as a modern subsystem company management of the, and its role in the period of economic crisis.

Main **tasks** of the research are: to analyze general characteristic features, determination and definition and basic functions and roles of controlling.

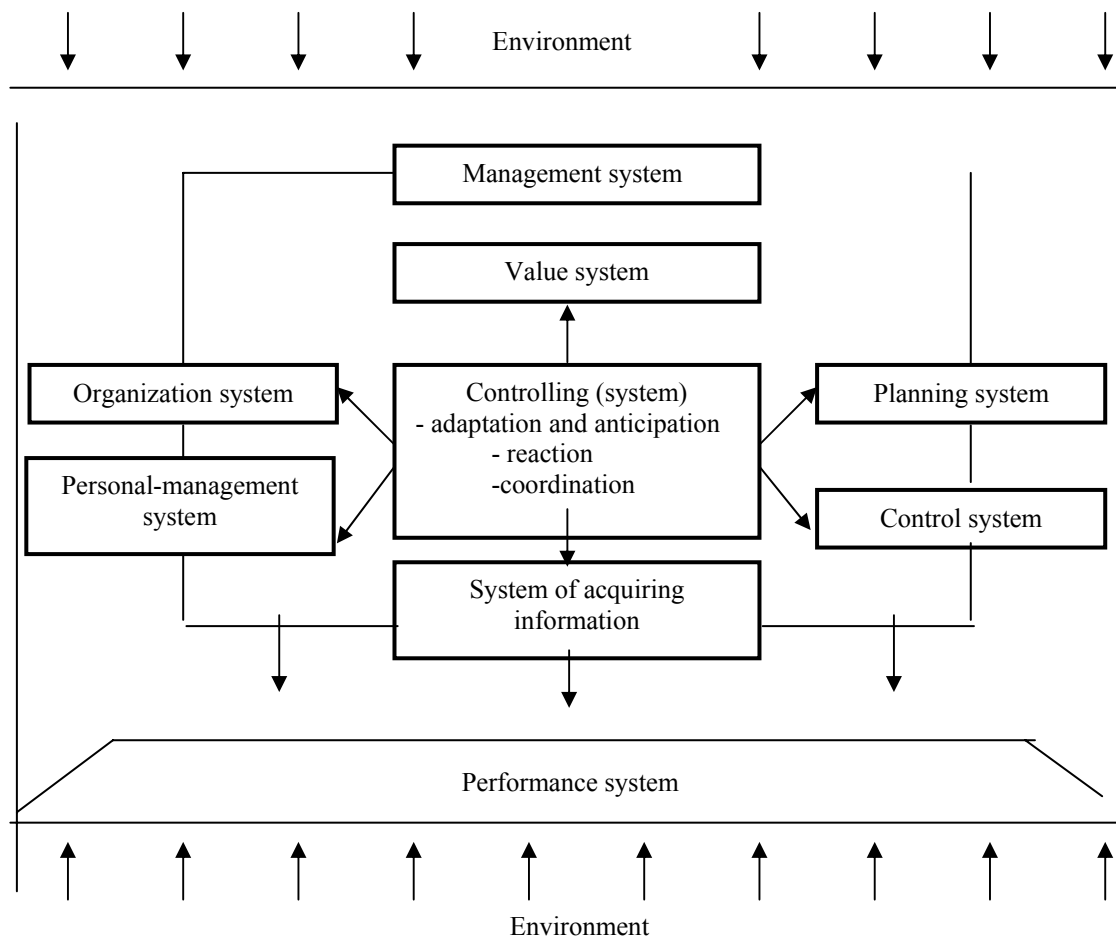
The **research methodology** consists of analysis and synthesis of scientific literature, discussing the problems of controlling and its implementation in organization management.

### General characteristic features of controlling

In the present period, the business environment in the Slovak Republic is under the pressure of impacts of the economic crisis which has been caused by the financial crisis aroused in the U.S.A. The lower consumption, subsequent problems in the sales of production, mass discharges of employees and thereby the increasing unemployment in the state create assumptions for a socio-economic tension. Since the pressure of the competition will become in the course of time stronger, the more optimistic prospects can be expected only from the most resilient business subjects which will flexibly react to changes in the business environment. As a consequence of these changes, the company must be continually improving its internal processes and management systems and react to the new situation by new management functions which would allow one to:

- evaluate the fulfillment of planned objectives,
- reveal risks and warn about imminent and actual deviations from the desirable development,
- analyze and evaluate the effects of business activities and decisions,
- plan and program the company development in comprehensive and analytical indicators,
- inspire top managers to discover the new business activities bringing an economic effect.

The fulfillment of the above-mentioned objectives can be implemented by a support of the modern subsystem of the company management system called controlling. Controlling is a sum of rules, instruments and modes of the management which help to achieve the company objectives. Its role is to identify the actual situation and prepare conditions for the elimination of a potential surprise. In the case of a danger which must be eliminated by taking some efficient managerial precautions the controlling serves as “an early warning red signal“ (Eschenbach, 2000). Controlling is a subsystem of the management system having a functionally viewed cross-sectional character and, at the same time, it is considered a management instrument supporting business decisions and management processes. The high-quality controlling is aimed to realize the co-operative style of management and requires the functional planning and information system.



**Figure 3.** Controlling in the company management system  
 Source: Eschenbach, R. (2000). *Controlling*, ASP publishing, Ltd., Prague

The successful company controlling does not mean the application of routine managerial works but its role is to warn on the basis of the adequate information about „narrow spots“ preventing the company from achieving the defined aims. In this way, controlling represents a specific form of the work with the information and its function is not to manage actual processes but the whole company, namely through the information about the actual processes. The incorporation of controlling into the company management system as its subsystem is illustrated in the scheme of Figure 1.

### Determination and definition of controlling

The term of controlling has found its way into the European terminology from the U.S.A. With regard to difficulties with a search for the accurate one-word equivalent it is not translated in non-English speaking countries (similarly as, for example, the term of cash-flow). The lexical basis of this term is an English verb “to control“ which can be understood in two meanings:

- to manage, command, hold under control,
- to check, verify.

In the economic literature, controlling is defined variously, all definitions being, however, more or less similar to each other and mostly trying to express its main characteristic features. One of the definitions is summarized in the following basic points (Baran, 2001).

- controlling has a command over the economy of the company which is held under its control by giving an early signal about its existence crisis and by performing the necessary precautions for its prevention,
- controlling is not a control,
- controlling means to “hold under control“,
- controlling is an active management, i.e. the management directed to the future.

In practice, a very important step is to define the relationship between the management and controlling function of the company. Within the indivisible managerial authority management performs decisions, has competences and responsibility, meanwhile controlling provides the top managers a support, offers inspirations, performs evaluations, analyses and controls, and gives recommendations. It is possible to maintain that controlling in the company is a form of the high-quality consulting designed for managers. According to the process of its introduction into the company there exist three levels of controlling which are shown in Figure 2.

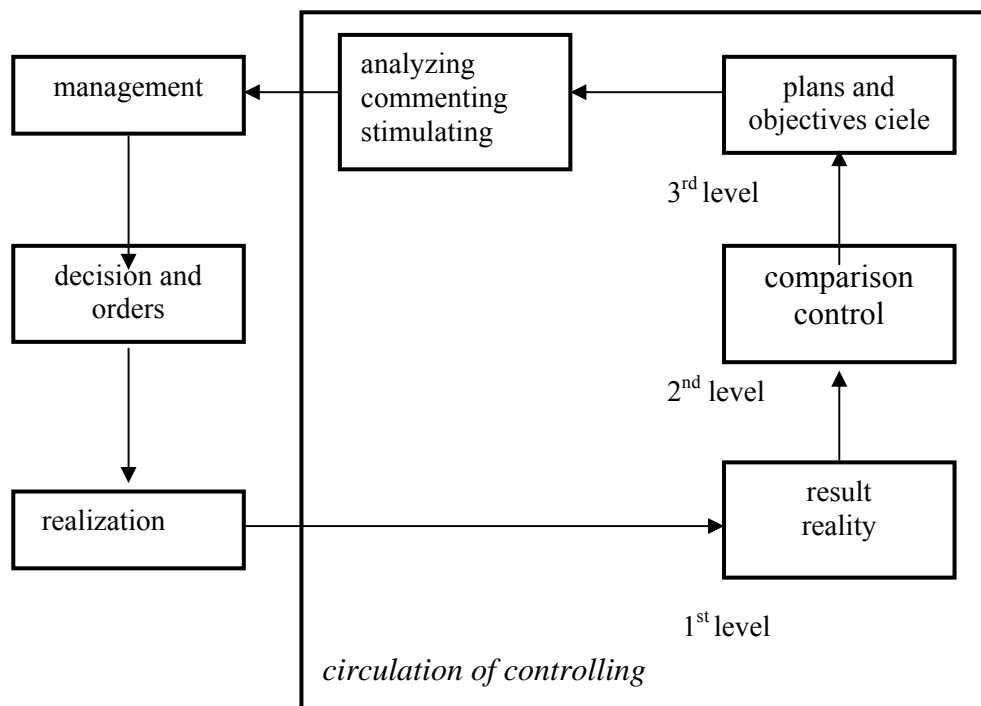


Figure 2. Controlling and management, controlling levels

The first level of controlling is associated with accounting, i.e. with the utilization of its function to register the achieved reality. It is important for the financial accounting and accounting documents to record all the information inevitable for management. The application of controlling is associated also with the accounting quality, namely with the financial, intra-company and managerial accounting. At annual intervals, the financial accounting indicates to what extent the company property and capital substance were changed, or in other words, how are the company objectives fulfilled. However, the financial accounting itself does not have the sufficient redeemable ability for an efficient management. For this reason the tendency to transform accounting into the financial reporting oriented to decisions has come to the fore. Since controlling is oriented to the future and accounting is oriented to the past and present time, the latter supplies the former with stimuli and the information needed for the management focused on the future. In practice, the transition from accounting to controlling has shown a significant change in the economic thinking within the sphere of a company.

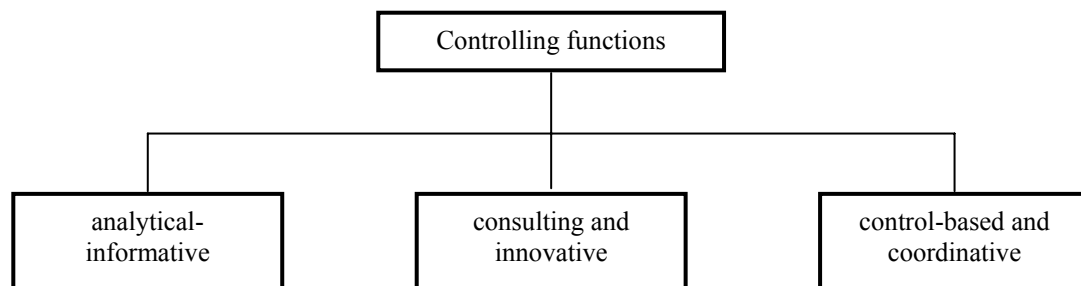
The second level of controlling is aimed to compare and monitor deviations from the plan that is from the accepted objectives of a company. In contrast with the control, the role of controlling is to register record and evaluate detected deviations and subsequently to suggest some changes and improvements in managing the company. The above-mentioned role of controlling often manifests itself just in that process, i.e. in its role of a navigator.

The third level completes the circulation of controlling aimed at managing the company. At this level, the all-round support to managing the company via the planning, checking, evaluating and rectifying information is clear. At this level, controlling is dependent on the high-quality information system of the company.

Consequently, controlling cannot be replaced by the management, nor by a control, although the control as a third disposition function of the management is inevitable for fulfilling the roles of controlling.

### Basic functions and roles of controlling

The definitions and characteristic features of controlling reveal its functions and roles in the company. The controlling functions can be summarized as follows (see Figure 3).



**Figure 3.** Controlling functions

*Source: Baran, D. (2001). Analysis of the company management, Publ. House STU, Bratislava*

From among the above-indicated functions the following basic roles of controlling can be defined. They include:

- support given to the process of planning and defining the company objectives. Within this function, controlling ensures the care, conduct and implementation of the planning system, the consulting services on using planning methods and planning recalculations, the formal control of partial plans, the control of plans considering the interconnection with principal objectives and their implementation, the monitoring of terms and encouraging the management to specify and assess the alternative solutions of planned tasks;
- continual acquisition and processing of the information promoting the decision-making. The individual company spheres have often their own information systems which are not usually interconnected between each other. There exists a problem concerned with their compatibility, which can lead to potential difficulties in managing and decision-making. In this connection the tasks of controlling involve also the building of the managerial information system and of the company financial reporting;

- promotion of the third disposition function of management, i.e. of the control, laying stress on the analysis of deviations. The company needs a control system corresponding to the planning one to implement properly not only the own, i.e. internal but also the external control. Controlling provides consulting services needed for recounting and for the analysis of deviations;
- incorporation of the information into reports and surveys required by management, proprietors, financial institutions, and also by state organs and organs of the public administration;
- active participation and the interest in the choice and preparation of top executives.

From the above-indicated overview one can see the extent of tasks ensured by a subsystem, i.e. the management instrument, controlling, which is aimed to achieve the given objectives.

### **Personal recruitment for controlling in the company**

Controlling is characterized as a subsystem of the company management system which fulfils specific functions associated with managing the company. However, the specific functions are not accomplished by a manager but by a specially educated person (or persons), the so-called controller. The controller is a worker who is a very important person in companies where the managerial subsystem, controlling, is introduced. Therefore this worker must fulfil the relatively high professional as well as personal claims. On the basis of my personal theoretical knowledge, research and practical experience I can sum up these requirements as follows:

#### **Professional requirements for the controller's function:**

- university education either of the technical-economic or technical, or economic-managerial branch of study,
- practical experience gained in the company, especially in technical and economic-managerial processes.

#### **Personal qualities required from a controller:**

- activity and creativity,
- communicativeness and sociability,
- natural authority,
- strong personality which must respect the system of one chief,
- reliability and pragmatism,
- ability to persuade the management by means of his or her proposals.

#### **Professional requirements for the controller's function:**

- university education of the economic or technical orientation, the best is their combination.

#### **Other requirements for the controller's function:**

- common application of the computer technique,
- ability of the perfect presentation,
- communicative abilities.

On the basis of the above-mentioned subsystem, i.e. of the management instrument - controlling, the controller's functions can be defined by an obligation to:

- take part in the formation, coordination and control of the fulfilment of company plans,
- work out reports, analyses and commentaries about the attained results needed by management and company owners,
- provide advisory services to all management levels regarding the formation of company standards and guidelines, mainly for the needs of accounting, budgeting and calculations,
- monitor guidelines and laws related to the composition of accounting statements (balances of profit and loss statements, CF and statistical statements, etc.),
- prepare reports for state and public-administrative institutions, financial institutes, etc.,
- monitor continually the economic, social and political environment of the company, international situation, especially in the economic area, which is highly important just at the present time of the financial and economic crisis. The primary and mainly secondary impacts of the crisis have affected the business sector of the Slovak Republic since the beginning of the year of 2009 when they are accompanied by consequences of the crisis in a supply of the natural gas. The controller's role is to register, evaluate and assess the negative impacts on the company.

After summarizing the above-indicated facts arising from the defined tasks, which must be ensured by a controller, it is obvious that he is a person whose sphere of competence involves plans, budgets, accounting, statements, tax questions and clearing transactions in the company where they represent its overall information flow.

The controller's success in the company depends on the success of other company components. This harmony between the controller and manager can be effective only when the manager will not consider the controller to be his rival but his partner and advisor, and when controlling will become a way of thinking proper to all leading economic workers. The access of a controller to all information data can inspire an impression that he substitutes the activity of individual specialized departments, managers, accountants, planners and budget workers, manufacturing managers, etc. However, from a viewpoint of the reality it is clear that controlling has functionally a cross-sectional character.

### Conclusions

Controlling as a modern subsystem of the company management and, at the same time, as its instrument is applied in our conditions only sporadically despite its undeniable advantages. The accessible amount of information has shown that controlling is used primarily in subsidiary corporations and in Slovak company branches with a foreign property participation. After the arrival at Slovakia these companies have brought also their own experience verified by the know-how not only in the technological field but also in the field of management, inclusively of controlling. This knowledge is for the most part inaccessible for the external environment and therefore the advantages of the time-tested controlling system penetrate into the entrepreneurial community only with difficulties. Most of the small entrepreneurs do not feel the need to change something in the management of their companies. They manage their companies more or less intuitively and consider the application of some novelties to be unnecessary. It is probable that middle-size companies observe some system drawbacks in the management system, but the largest obstacle for them is just the accessibility of the required know-how and finances necessary for the application of modern management methods being adopted primarily through managerial information systems (MIS). Controlling is relatively demanding also for the personal recruitment. In the past, versatile experts almost did not exist in this field in Slovakia. In recent years the situation has changed considerably, mainly owing to the instruction of controlling at universities. If the company intends to introduce the controlling system, it must train its employees in advance, which is rather expensive. However, not all companies can afford to train their employees and create the special job positions for their controllers. Despite the starting problems that can arise on introducing the controlling into the company practice, controlling offers various advantages in all management fields. The contribution of controlling can surpass all problems appearing during its application in the company, which is relevant just at the time of the present economic crisis.

### References

1. Baran, D. (2001). Analysis of the company management, Publ. House STU, Bratislava.
2. Baran, D. (2008). Application of controlling in the company practice, Publ. House STU, Bratislava.
3. Becker, H.J. (1989). Controller und controlling, Stuttgart.
4. Eschenbach, R. (2000). Controlling, ASP publishing, Ltd., Prague.
5. Foltínová, A.-Kalafutová, E. (1998). Controlling of Costs, Publ. House ELITA, Bratislava.
6. Hofmeiter, R., Stiegler, H. (1992). Controlling. BaBtext Co., Ltd., Prague.