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Controlling Between Autonomy and Heteronomy

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Abstract

The strategic playing field of controllers from the perspective of the services to be delivered and the relationships to internal customer, were frequent references to how controllers should adapt their abilities to such challenges. Controllers should therefore under no circumstances take comfort in their very strong internal competitive position, but have to work actively on its ongoing strategic development. If controllers focus consistently on identifying new services for managers, if they keep their managers' satisfaction in mind, if they measure their tasks in the same way that they plan and monitor business development, then there are strong arguments why they should be able to maintain their „market dominance“ in the area of management support.

Key words: financial controller, business controller, controlling effectiveness, controlling efficiency

1. INTRODUCTION

Companies have changed drastically over the last half-century and the controller has changed along with it. Where the position used to require someone with a tight focus on processing transactions and financial statements, the job now requires much more managerial skill, as well as a general idea of such diverse bodies of knowledge business process improvement and information technology. This calls for a controller with a much more diverse skill set that was previously the case. It also point toward a different career direction for the controller of the future.

2. FINANCIALCONTROLLING VS BUSINESS CONTROLLING

Financial controlling is extension of accounting into a new dimension. It is not a substitution of accounting, neither it can exist without. In the same way as engineers have reliance on precise measuring, technical drawings and quality assurance, controllers will trust accounting, financial reporting and compliance with accounting standards.

Financial controlling combines accounting and operational (non financial) data in order to provide new view on the business. It provides capacity to describe, model and measure all functional areas of the organisation. Financial controlling bridging the gap between the internal and external activities of the financial function. Modern controlling must have ambition to integrate all management tools into one

system – one source of truth. This will help reduce significantly the company response time to the changes in external environment. In today's economy this is the main, in specific cases the only competitive advantage. Its appearance, controlling moved the finance function from „bean counter“ to „business partner“ [12]. It can describe complex cost models. It enables precise profitability measurement for specific product or service segment, selected territory or customer. Controlling support sales organisation to manage the customer and product portfolio. It provides control over material, production cost and facilitates the continuous improvement. Controlling enables profitability analysis over the whole value chain, for complex manufactured products. As controller you „own“ the working capital. Efficient use of controlling will support complexity reduction. Et the end, financial controlling moves from description and analysis of business activities to budgeting and forecasting, where in the final stage it provides modeling.

Financial Controller will have responsibilities on the accurate and timely reporting. An Financial Controller will run reports and controls on accounts payable, accounts receivable, etc. He bothers with the Balance Sheet much more than with P&L. He is responsible on controlling the financing of the business and of consolidating the reports from all parts of the company. Financial Controller will be more reactive as he has little exposure to external factors.

Contrary to the Financial Controller, in companies there are also the role of the Business Controller.

In most Western European companies, both roles coexist and there is little misunderstanding what they do. The role of a controller in the US is given a different interpretation and is completely geared towards protection of assets and managing risks.

The difference between Financial Controller and Business Controller is hardly relevant in the way they work. In emerging economies, there is still a need to define these roles. It is also a very different market environment with an own set of challenge. And although there is no formal dichotomy between Business Controller and Financial Controller, it is clear that Business Controller and Financial Controller are quite different personalities.

As the name says, a Business Controller is business and commercial minded.

He partners up with other functions outside of finance, almost like a consultant does. He is active, aggressive, externally focused and future oriented. With his strong network in eg.logistics, production and sales, he will build business plans and define ways to identify gaps, opportunities. In order to really know what drives the business, he defines ways to measure and report on the key indicators of it. He will bother with the P&L much more than with the Balance Sheet. He will also need to link into the business model, to tailor his approach depending on the business he works in. Business Controller also need to think of ways to identify cost saving opportunities and efficiency gains It is a social job and he is a real part of the line management and decision taking, including all risks involved.

By comparison, Financial Controller is as the little "CFO" against the Business Controller as a little "CEO" [11].

The controller role is a natural progression from accountant. However, CFO is not necessarily a natural progression from controller. CFO must know accounting and financial reporting. A CFO has to understand the operations of the business and how the financial system inter relates with operations. CFO has to understand capital structures and business funding and he must know how to manage cash.

He has to understand business risks - both financial and non financial – and know how to mitigate those risks. He has to know strategy and be able to see the big picture. He must be able to make decisions. Finally, the one CFOs most often miss, must understand people and be an effective communicator. If the CFOs people are still calling „a bean counter“, either they are very ignorant or there are doing something fundamentally wrong in the performance of duties.

3. FACTORS INFLUENCING THE CONTROLLING ORGANIZATION

Power and efficiency of controlling significantly depend on whether the individual potentials and efficiency of every associates optimally used and whether all staff in the best possible way are complement to each other.

All associates should in controlling, and in the company, to cooperate efficiently, meaning that all the experts with its own special abilities, need to fit together like a ratchet mechanism that works perfectly.

As a part of a research work, for the purpose of doctoral thesis [6], where were analyzed 51 company with different activities, surveyed companies have had a question about the factors [8] that influence of the controlling organization, responded as follows:

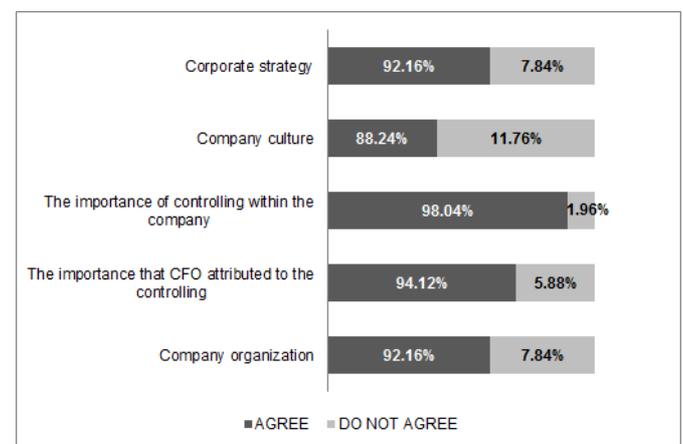


Figure 1. Factors influencing controlling organization

The largest number of respondents or 98.04% agrees and believes that the importance of controlling who has within the company is crucial to its form of organization. There are important and opinion of the importance that is attributed CFO to controlling as well as the organization of enterprises and its' strategy.

4. INTERNAL COMPETITORS OF CONTROLLING

4.1 Financial accounting and financial controlling

Financial accounting is a competitor that has been going from strength to strength in recent years. There is often a rivalry between the two, and it is one of the key tasks of a CFO to create a sensible balance between financial accounting on the one hand and controlling on the other [6]. The key task of financial accounting is to supply information to target groups outside the organization. In order to satisfy the information requirements in a form that is generally understandable, financial accounting has to comply with externally specified accounting standards. Furthermore, the department is usually also responsible for ongoing bookkeeping and for interacting with external auditors. Controller units and financial accounting departments use the same financial and non-financial raw data. The tendency towards integrated financial and cost

accounting system, which is being fed above all by the increasing use of accounting software, implies that data is becoming more and more standardized across the cost and financial accounting functions. It is usually financial accounting which is responsible for entering data into the computer systems, thereby providing a large part of the data needed by controller units. In this sense, financial accounting can be described as a supplier of information - especially financial information – to the controller unit.

Conversely, controller units are increasingly providing information and tools to financial accounting. This is true especially in companies that prepare their balance sheets according to IAS/IFRS. Whereas controller units (via cost accounting) have supplying data for calculating manufacturing costs. Preconditions for correct accounting include information derived from planning processes and knowledge of net present value calculations, for instance when performing impairment tests on goodwill.

The financial accounting department represents a potential competitor of the controller unit – especially in companies where it generates financial statements more often than once a year. By being provided with the opportunity of explaining the statements to management, it gains increased access to the management level and thereby has more chances of increasing its offering of services. Employees who work in the financial accounting department are usually assumed to have strong quantitative skills combined with a high degree of attention to detail.

Nevertheless, controller units do have some important competitive advantages compared to financial accounting departments. Controller are still seen as „custodians of numbers“ and are more likely to have access to non-financial information, the importance of which has increased recently from the perspective of management[8]. Furthermore, financial accounting departments tend to be inexperienced in the areas of strategic and operational planning, whereas controller units make extensive use of planning and monitoring tools. Controllers are also used to making forecasts, whereas financial accounting departments used to focus on historical calculations in the past. This is also why controller units continue to be considered more suitable for capital budgeting.

In order to become an important competitor of controller units in their role as consultants of sparring partners to management, financial accounting departments would have to catch up in the area of communication skills.

4.2 The strategy department and business controlling

A potential competitive situation also exists between the controller unit and a department that may be referred to by various names in practice, but which is commonly known as the business development or strategy department. In medium – sized and large companies in particular, management often receives support from positions or departments especially created to provide guidance on strategic management issues. Such units usually report directly to the CEO and are thus in direct

contact with the highest management levels. Strategy departments offer strategic management support and concentrate their activities on providing input, both formally and regarding contents – into planning and decision-making processes, as well as carrying out strategic monitoring [9].

The competitive advantages and disadvantages of a strategy department in relation to a controller unit can essentially be derived from the skills profiles of the respective employees.

The qualifications of staff members are one of the strengths of a strategy department. They are usually recruited from management consulting companies. Many corporate strategists possess detailed market and competitive knowledge – in contrast to many controllers. They are able to identify market trends and their implications for the company from incomplete and mostly qualitative information. From an organizational point of view, the fact that strategy departments are often found at the highest levels of the organization, reporting to the CEO, is another competitive advantage in relation to the business controlling [5]. In this sense, members of strategy departments usually have easier access to the top management ranks when working on strategic issues than business controllers, whose work focuses more on the operational level.

On the other hand, strategy departments also have certain weaknesses compared to business controller units. For strategic management, the combination of the market and internal company data are important. Strategic planners do not have direct access to such information. Furthermore, the representation of strategic issues in financial terms is becoming increasingly important in many companies in response to the concept of value-orientation. Both knowledge of the company and the financial perspective are core competencies of the business controller and enable it to position itself favorably within the company in relation to the strategy department. Furthermore, the latter's high hierarchical position can be seen as a competitive disadvantage, no contact with operational level. Owing to their separation from the operational level, the strategic plans developed by strategy departments also risk running aground during implementation. For all these activities, it therefore appears that business controller units have a competitive advantage because of their highly differentiated organizational structure, which provides close contact to local units and reliable information flows.

5. UNDERSTANDING CONTROLLING

In accordance with the above, it could be assumed that the cooperation between these departments systematically flowing, to clear profiles and divisions of tasks prevail and that everyone knows exactly what to do. Unfortunately, in practice it looks different. There is no common understanding often for other side tasks, and its challengers is their daily work together. As a consequence, it leads to duplicate of work, egoism by fields and inefficient work processes, which impairs the support and provision of rationality management [8].

To the question of what role should have the controlling of the company, surveyed companies responded as follow [6]:

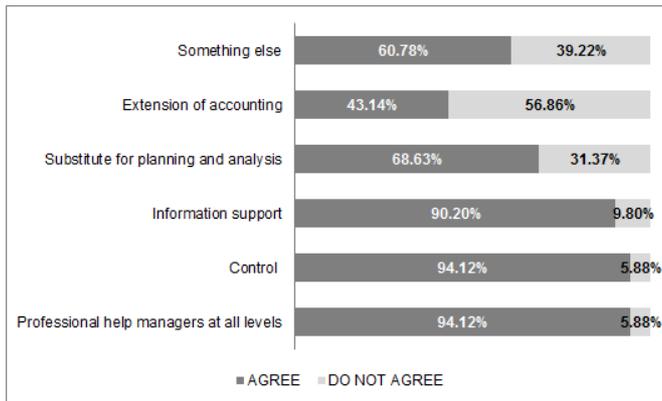


Figure 2. The role of controlling in the company

The largest number of respondents 94.12% answered that they agree that the most important role of controlling is to be a professional support to managers of all levels and to have a control role. The minimum number of respondents believed that controlling is the extension of accounting.

To the question who are beneficiaries of controlling information [1], all of the respondents replied that they agree that the management of the highest level of are user of controlling information. Then, lower management level and finance [6].

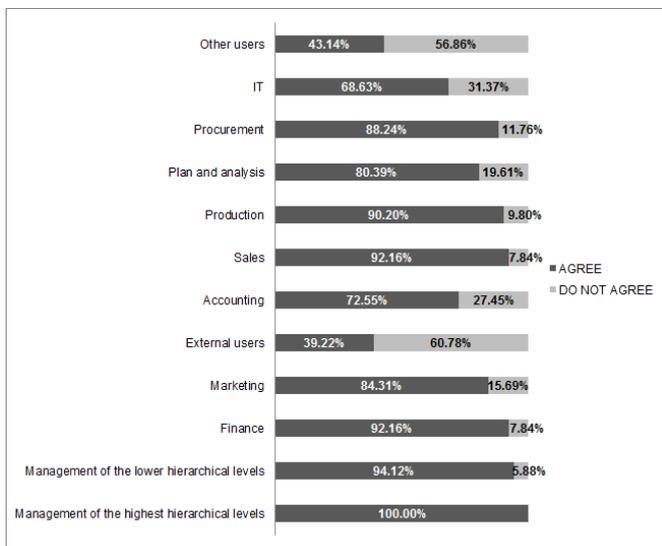


Figure 3. Users of controlling informations

5.1 The role of controller

The controller role can be divided into four discrete roles [9]:

1. Commentator - focus on explaining the numbers
2. Business partner – focus on value creation
3. Scorekeeper – focus on bookkeeping
4. Custodian – focus on governance.

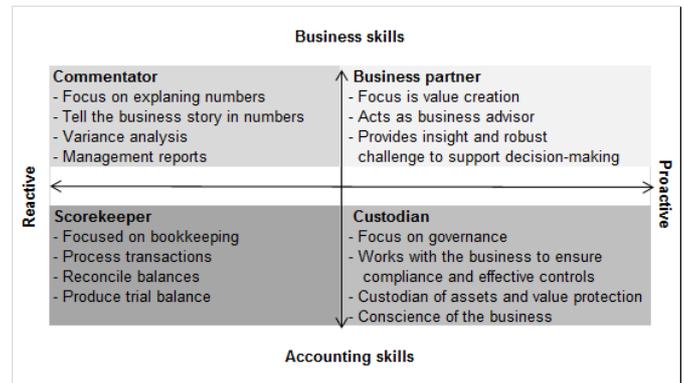


Figure 4. The role of controller [10]

Commentator have an open dialogue with the board about management reporting and what will help them make better decisions. Discuss the following options:

- Including more non-financial KPIs,
- Delivering the reports with interrogation tools,
- Providing more added-value commentary.

Business partner get to know the independent directors and divisions. The financial function has a reputation of being unhelpful. To help support decision-making, business partner need to know the decision makers and their needs. Business partner leverage broader experience and forecasting and investment appraisal skills to help the businesses. He is a friend to the business, not a hindrance. Business partner has leadership skills and also he is a team member.

Scorekeeper invest in IT and process improvement. It will save money and time in the future and help controls.

Custodian is strategic and forward thinking and don't get pulled into detail unnecessarily.

Increasing focus on the role of controller as a business partner is perceived to have helped develop a technical skills. Also, adding value is an area where improvement is needed.

6. CONTROLLING EFFECTIVENESS OR EFFICIENCY

Traditional controlling has evolved into one of the most important support functions within a company. But as business face a dramatically changed environment, the question is will controlling functions and processes be effective and efficient enough to meet the challenge. Controlling is an approach that helps companies concentrate on value creation and value drivers, raising quality and reducing costs.

Controlling was primarily developed as a response to macroeconomic turbulence in the 1920s and 1930s. As the global economy strengthened, companies grew steadily and were faced with increasing challenges in the areas of communication, coordination and steering. Controlling was developed as a way of regulating the entire business operation and management.

Controlling mainly focused on internal processes and relied on historical data to plan, budget and forecast demand as well as production. In this regard, main tasks such as planning, budgeting and forecasting and

cost management assumed that numbers from the past would provide valuable lessons for the future. However, the economic and global structures of the 21st century, which have been shaped by the global financial crisis, produced a challenging new environment for controlling. Tougher competition, high market volatility, shorter innovation cycles and strong pressure on margins force companies today to act faster and more strategically in order to be successful. Modern controlling builds on traditional management accounting, and offers a more strategic function that can help meet these challenges.

Success of high-performing companies (as measured by turnover and EBITDA) is underpinned by a focus on four key success drivers [11]:

- Customer reach-to optimize their potential market,
- Operational agility-to maximize their effective response,
- Cost competitiveness-to optimize their profitability,
- Stakeholder confidence-to secure talent and support for achieving their goals.

As businesses concentrate on these drivers, new challenges will emerge. Controlling will help them to meet these challenges. As a response to this expanded role, and technological, economic and social advances, controlling might need to undergo a cultural change.

Therefore, controlling's focus, organizational setup, processes and systems should be adopted to better reflect this new environment.

Adaption of controlling might not be necessary in the industries that still operate in a stable environment.

When changing the focus of controlling so that it becomes more proactive, strategic and business-oriented, we need to define what is meant by effective and efficient. The definition is different in each company and in each controlling department, but is usually arrived at following a discussion about „are we doing the right things?“ (Controlling Effectiveness) and „are we doing the things right?“ (Controlling Efficiency)[11]. Effective controlling should concentrate on value creation and value drivers. It should provide all relevant and required information for management and business operations, while optimizing, processes and systems to raise and reduce costs.

Controlling a suitable value chain enables transparent monitoring of each function's performance and an assessment of how each relates to overall company objectives. In addition to changing the mindsets of employees, this is a first step toward designing strategy, organization and process layers for prioritized value chain elements.

The next step is to design and develop an integrated management control and reporting concept, which is based on the company's vision and strategy and includes relevant objectives on processes, business units or product and consumer groups.

The concept should maximize transparency within the functions with standardized key performance indicators

(KPIs) across the whole group. Indicators should be assigned to internal and external customers and line up with the information needs of each group. The customized reporting concept should be linked to value chain objectives and management reports in a most effective (relevant information), efficient (highly standardized and automated) and visual way. The next stage is to base strategic and operational planning on the value chain or, rather, the management control and reporting concept that includes financial and business-relevant indicators. As a result, controlling departments are able to control, plan, steer and coordinate business processes along the entire value chain in a more effective way.

Within the value chain, there are three major functions that will influence controlling units in the future. Sales and marketing controlling will encompass more online and web activities. Strongly driven by social networks and other platforms, there is a barrage of new information about customers and their behavior. Production controlling will, in the main, be directed by new manufacturing processes and the vertical integration of a company.

Depending on the degree of in-house and outsourcing activities, controlling of corporate networks will become increasingly necessary. The function most seriously affected is R&D. Driven by shorter life cycles, faster – paced innovation and more open innovation environment, innovation controlling has to adapt, expand or change its focus.

In research processes, controlling must lay the groundwork and act as a business partner to support researchers and technical experts. The foundation for this is R&D reporting. However, the frequent challenge is that reporting does not always reflect the peculiarities of the area; instead, only standard reports regarding costs and budget compliance are provided.

In order to achieve a certain level of relevance regarding control, KPI reporting should be carried out in consultation with management and researchers. This cooperation also builds trust and adds value on all sides. More complexity arises over whether companies are engaging with open innovation. This involves external business stakeholders such as suppliers and customers actively contributing to the innovation process.

In the area of production, controlling should play a wider role in addition to its standard tasks of product costing and stock valuation. This should involve stronger support for „make or buy“ decision-making, or business partnering for manufacturing-oriented product development, which are both strongly influenced by costs and time.

In some industries, such as pharmaceuticals, marketing is often a significant value chain area. Because of rising marketing costs, the costs for every type of advertising are more closely examined.

Therefore, controllers can have a stronger interdisciplinary significance in this area. This could include better customer interaction and support for online marketing controlling [2].

In the research [6], 88.24% of the enterprises surveyed rated a score five, contribution which has controlling in business management.

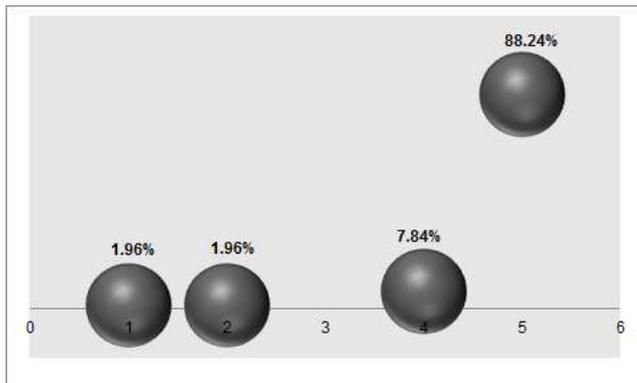


Figure 5. Contribution of controlling efficiency and business management

Also, 96.08% of the company fully agrees that the implementation of controlling increases the ability to identify business risk [5].

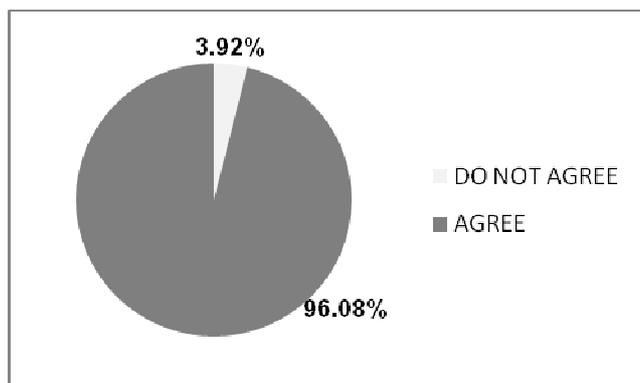


Figure 6. Through implementation of controlling, an increased possibility of identification business risk

7. CONCLUSION

Controlling knowledge is in great demand in this crisis times. „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” [3].

New global trends are forcing companies and their controlling units to adapt to a changing business environment. Controlling departments not only have to define new objectives, processes and service delivery models but also have to transform structures that have developed over many years.

Shifting to a more proactive, strategic and business-oriented controlling should resolve the conflict between new requirements and tasks on the one hand, and continuous pressure on cost, quality and time on the other.

To achieve controlling to be excellent there should be a focus on new controlling requirements and further development of already established controlling activities. Companies should try to develop standardized and highly automated processes and optimize their

service delivery model. This is the path toward effective, efficient and excellent controlling.

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Kontroling između autonomije i heteronomije

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Rezime

Strateški teren kontrolera sagledan iz ugla usluga koje treba da obezbedi kao i odnosa koji treba da razvije sa internim klijentima, pruža mogućnost za mnogo ideja o tome kako bi kontroleri trebalo da se postave pred ovakvim izazovima. Stoga, kontroleri ni pod kojim uslovima ne bi trebalo da se uljuljkaju u svoju takmičarsku poziciju, već da aktivno rade na strateškom razvoju. Ako se kontroler fokusira na pronalaženje novih usluga za rukovodstvo, ukoliko ima na umu zadovoljstvo svojih pretpostavljenih, ukoliko svoje zadatke meri na isti način kao što planira i nadgleda razvoj poslovanja, ima jake argumente da zadrži svoju „dominaciju nad tržištem“ u oblasti podrške rukovodstvu.

Ključne reči: *finansijski kontroling, poslovni kontroling, efektivni kontroling, efikasni kontroling*