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EVOLUTION OF CONCEPT OF CONTROLLING

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Abstract. *Main prerequisites for development of controlling and its goals are considered. Summary of key concepts that are found in the works of German scientists – the founders of the theory of controlling, is made.*

Keywords: budgeting, controlling, evolution, integrated management system, managerial accounting, profitability.

1. Introduction

Adapting to changes of environment, along with the preservation of stability are essential requirements for long-term existence of modern organizations. Different direction of vector's influence on economic subject requires quick managerial respond. According to opinion of I. Ansoff modern management is innovative and strategic, proactive and motivating to development. Because of interdependence, complexity and different direction of factors influencing organizational activities arises need for integrated management tools that allow to carry out a multifaceted performance monitoring and display the results in specialized terms.

Controlling (from English. “control” – leadership, management, directing, control) can be defined as an information system to ensure the viability of the enterprise in changing external environment to the future. Its emergence is a symbolic reflection of changing the outdated paradigm of “first retention, then development” to “retention through development” (Controlling...2006). Among the reasons of spreading and development of controlling as practical technique and theoretical concept are following:

- accelerating pace of globalization, the internationalization of companies that follow strategies of diversification, differentiation etc.;
- complicating of enterprise functioning environment, inability to use old approach to decision-making by increasing the number of variables that must be taken into account;
- appearance of need in managerial information of new quality and meaningful character.

The purpose of controlling is collection, processing data and transforming it into information needed for decision-making that cannot be obtained by conventional means of control because of its uniqueness.

The concept of management based on controlling lays in ensuring successful functioning of organizational system in the long run which is not limited only by control, but also is based on:

- adaptation to the requirements of the strategic goals of the environment that is constantly changing;
- coordination of operational plans with the strategic plan of the organization;
- coordination and integration of operational plans for various business processes;
- establishing system of management information for various levels of management in optimal intervals;
- establishing system of monitoring for implementation of plans, updating their content and timing of implementation;
- transforming organizational management structure in order to increase its flexibility and ability to respond quickly to changes in the environment.

2. Analysis of research and publications

However today there is no unambiguous definition of “controlling”. Operation of controlling is based on extensive theoretical and practical basis and is studied by economists worldwide. German scientists are controlling progenitors. Significant contribution to the study of scientific problems controlling and shaping theoretical framework was done by J. Weber (1999), A. Dayhle (2001), H.-U. Küpper (2001), E. Mayer (1995), R. Mann (1995), T. Reichman (1990), H. Folmut (2001), D. Hahn (2005), P. Horvath (2006), A. Schmidt (1986), D. Schneider (1992).

Russian scientists and practitioners who study problems of controlling are O. Anankina (2003), N. Danilochkina (2003), A. Karminsky (2008; 2002), N. Olenev (2002), A. Primak (2002), S. Petrenko (2002), E. Popchenko (2006), L. Sukhariova (2002), S. Falko (2002).

Among Ukrainian scientists are names of O.V. Aref'eva (2008), L.S. Martyusheva (2006), A. Olifirov (2003), N.Y. Petrusovich (2006), M.S. Pushkar (2004), L.A. Sukhariova (2002).

Admittedly Russian scientists investigated theoretical problems of controlling more deeply and in wider number of industries. Mainly it was concentrated on exploring relationship problems of operational and strategic controlling and using their instruments in company's performance.

3. Problem

Basing on existing theoretical material it is necessary to systemize and generalize it which is the purpose of this article.

4. The main material

The concept of controlling appeared on Western enterprises with understanding the need to integrate all existing business processes within a single integrated management system.

System of integrated management emerged in modern form having passed four stages of transformation (see Table).

The first stage was characterized by the dominance of industrial management and a focus on bottlenecks in production. Attention is mainly focused on the calculation of the total cost of production, cost estimates and other registration operations.

The second stage of controlling formation brought to the prime tasks of meeting demand;

attention begins to focus mainly on the future, still – on the nearest short term enterprise development.

Budgeting as a mean of controlling deviation of actual performance of the plan at this stage is widespread.

Due to increasing competitive pressure, acceleration of inflation and the saturation of the market with goods preferred priority for companies in 70s of XX century was keeping leadership through a comprehensive study of the needs of customers.

Dissemination of information technology at this stage was a significant base for the further implementation of controlling.

Since '80s of XX century and till today strategic management and related methodologies and tools have become an integral part of controlling policy issues in organizations.

Job and functions of controller acquired new meaning and at the same time controlling departments became quite common organizational phenomenon.

Achievings of information technologies obtained in the previous step, allowed controllers yield more information to improve the quality of analytical work to integrate within a single system all functional departments and business units.

National characteristics of economics influence interpretation of controlling essence.

American and German models are similar although they have some differences at the level of management functions, integrating controlling.

Historical stages of formation of controlling in business

Stage	Years	Priority direction	Methods	Main function
I	50-s - beginning of 60-s XX cent.	Production	Evaluation of costs, calculation	Registration of facts of economic activity
II	60-s - beginning of 70-s XX cent.	Product marketing	Profitability of individual products	Initial navigation of company
III	70-s - beginning of 80-s XX cent.	Client's marketing	Strategic planning of enterprise	Analytical-forecasting
IV	80-s - nowadays	Warranty of enterprise existing in the long run	Operational and strategic planning in terms of creating economic added value	<i>Complex:</i> coordination of activity at all management levels. <i>Analytical:</i> achieving of profitability in terms of guaranteed liquidity

The concept of controlling in American model which is wider by content, is replaced by an equivalent term “managerial accounting”, and the range of tasks of controlling service also includes external reporting and its audit.

In Germany researches on controlling began in the 60s of the XX century and were associated with high rates of growth in size and profits of enterprises, as well as with the introduction of profit centers that had separated records.

Controlling in German model is considered as an internal economic feature which supports management from the stage of agreeing objectives to the final analysis of deviations from targets (Ehrmann 1991, p. 23–24).

In controlling are two interrelated areas – strategic and operational. Strategic controlling is a management tool that focuses on long-term goals and the potential success of the company and coordinates processes in the system of strategic management. Operational controlling aims at improving the effectiveness of the company in the short term through the optimization of the “cost-profit”.

The most significant contribution to the study of scientific problems of controlling theory was made by German scientists.

Within German school three basic concepts of controlling exist: focused on accounting, information and coordination.

Historically the first stage of controlling fell by 30s of XX century initiating the concept oriented on accounting.

According to this concept in the company relevant indicators of enterprise success in monetary terms are main and controlling itself is profit-oriented and is more operational in character than strategic. For the purposes of controlling is used solely accounting data.

Proponents of this concept H.-U. Küpper (2001) adheres to the view that controlling is the modern name of the field that existed before because it partially replaces the scope of functions of accounting and reporting, and is identified with the concept of inner management or accounting.

Controlling concept that are oriented on information (Mensch; Reichman 1990; Hahn 2005), restrict tasks of controlling in total coordination of management in the context in which it is considered by Küpper (2001) and Weber (1999), reducing them to provide preparing and obtaining management information for decision making.

In terms of T. Reichman (1990), D. Schneider (1992) and D. Hahn (2005) main tasks of controlling are reduced to collection and processing of information, organization and coordination in a vicious circle developing, coordinating, monitoring and controlling company’s plans on the basis of performance and production system of indexes in order to obtain baseline information for planning (Hahn 2005, p. 112).

Special task of controlling D. Hahn considers in planning and control of the company (making result-oriented planning and control calculations), accounting and reporting (balance sheet, statements of income and expenses), processing and transmission of primary result-oriented information and direct forming of systems, techniques and organizational structures of controlling.

Creation of controlling system directly should take place with a focus on “narrow” places where information is needed in the first place, and also with regard to the overall objectives of the enterprise, to avoid such a system that will meet the needs for information of companies management (Hahn 2005, p. 73–76).

D. Hahn (2005) considers the concept of controlling in a complex way, interpreting it as a set of goals, objectives, instruments, actors and organizational structures. T. Reichman (1990) and D. Hahn (2005) believe that the purpose of controlling is determined based on the goals of enterprise, main of which is to optimize financial performance with guaranteed liquidity.

The author shares the view of D. Hahn (2005) concerning secondary character of controlling subsystem objectives towards general organizational goals.

Controlling is considered in this concept as a generalized term in many areas: planning, control and information systems, and covers the entire set of business objectives both quantitative and qualitative and not just monetary indicators.

Pursuant to the provisions of the third group of controlling concepts oriented on coordination, it is defined as a relatively new field which covers other practical subspheres that previously were reflected in science through its separate existence.

Coordination tasks of controlling are implemented inside management system between its subsystems. Depending on the direction of coordination two subgroups of concepts are distinguished – with a focus on planning and control, and with focus on management system as a whole.

Concept oriented on planning and control (Horvath 2006; Weber 1999) consider controlling as an element of social systems, which performs its main function of management support in the process of solving it overall task of coordinating management system focusing primarily on tasks of planning, monitoring and reporting (Hahn 2005, p. 113).

As part of this approach controlling acts as a management subsystem that provides system-integration and system-creation function for coordination of planning, monitoring and information provision.

System-creation coordination involves formation of system and process structures that contribute to solving problems at a time when system-integration function is engaged in direct coordination which is to preserve and adapt information links between subsystems (Weber, Schaffer 1999, p. 10–11).

Thus Weber (1999) as Küpper (2001) emphasizes lack of communication of controlling with the process of goal-setting (e.g., tasks for profits).

In the treatment of P. Horvath (2006) controlling is results-oriented management and support function that comes out of the enterprise objectives which is accepted by number of authors. Functions for controlling according to P. Horvath (2006) are integration and coordination of the planning process in the enterprise, as well as its information management in the response and adaptation to internal and external conditions that are constantly changing.

J. Weber (1999) basing on the concept of controlling of Horvath (2006) and Küpper (2001) sees it, primarily, as a tool of coordination.

Special attention should be given to the issue of identity of terms “controlling” and “control”. H.-Y. Küpper (2001) notes that position of equating controlling to normal control is inherent to his opponents who argue that introduction of controlling just serves to toughening of control. But objection of element of control is not fair because it diminishes his role in complex controlling measures and impoverishes the controlling entity.

J. Weber (1999) also recognizes that security control refers to the range of controllers tasks and avoiding of using of this term by controllers themselves mainly happens due to the psychological factor and the negative emotions that cause management activities in general.

Thus, controlling is integrating and coordinating system which as such were inclined to consider

H.-Y. Küpper (2001), J. Weber (1999), P. Horvath (2006), V. Prokhorova (2006), L.S. Martyusheva (2006), S. Falko (2002).

Thus it is not only about the integration phase of decision-making but also about combining and coordinating plans for various functional subsystems, structural units of information services of company and projects of information systems, especially when company operates computerized accounting system which are not linked and do not meet the new standards.

Thus evolution of the idea of controlling from revisions in resolving financial and economic issues to the practice in which control is only one among other elements of controlling system proved the practical necessity of the existence of this management tool.

The review of research suggests that domestic scholars widely developed basic concept of controlling, its goals, objectives and functions.

Ukrainian researchers formed an opinion that the basis of the controlling system is accounting analysis system or a system of accounting and reporting, based on economic accounting, external control and strategic analysis.

While the theory of controlling of Western scholars argue that this is the basis of management accounting. Author believes that this is due to the historic nature of research of controlling in the West, as well as a greater prevalence of the practice of management accounting in foreign enterprises.

Both points of view can be considered identical because of the economic accounting includes financial and managerial.

5. Conclusions

Thus emerging of controlling as financial instrument is connected with the need to control movement and effectiveness of financial resources of the organization. But later expansion of needs in the nature of management information changed the purpose and content of controlling functions turning it into a valuable management tool by combining and coordinating administrative functions that interconnects interests of stakeholders and provides obtaining of target financial results.

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Розглянуто передумови поширення контролінгу як практичної методики і теоретичної концепції. Визначено основні складові елементи концепції управління підприємством на основі контролінгу та його цілі. Хронологізовано історичні етапи становлення контролінгу на підприємствах від реєстраційного інструменту господарських операцій до системи інтегрованого управління. Наведено відмінності між американською та німецькою моделями контролінгу. Узагальнено сутність трьох основних груп концепцій контролінгу німецьких учених, орієнтованих на бухгалтерський облік, інформацію та координацію. Наведено пояснення відмінності між точкою зору вітчизняних та іноземних дослідників щодо ядра системи контролінгу на підприємстві.

Ключові слова: бюджетування, еволюція, інтегрована система управління, контролінг, прибутковість, управлінський облік.

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Рассмотрены основные предпосылки распространения контроллинга как практической методики и теоретической концепции. Определены основные составляющие концепции управления предприятием на основе контроллинга и его цели. Хронологизированы исторические этапы становления контроллинга на предприятиях от регистрационного инструмента хозяйственных операций до системы интегрированного управления. Приведены отличия между американской и немецкой моделями контроллинга. Обобщена сущность трех основных групп концепций контроллинга, ориентированных на бухгалтерский учет, информацию и координацию. Приведено объяснение отличия между точкой зрения отечественных и иностранных исследователей относительно ядра системы контроллинга на предприятии.

Ключевые слова: бюджетирование, интегрированная система управления, контроллинг, прибыльность, управленческий учет, эволюция.

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