

# THE ORGANISATION OF THE CONTROLLING SYSTEM IN AN ENTERPRISE

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**Abstract.** This paper analyses the organisation of a controlling system in an enterprise, allowing for theoretical and practical aspects of the basic management function, i.e. planning. It presents original controlling tools supporting the organisation activity planning and controlling process in a detailed manner. The analysis pays particular attention to the fact that budgeting is the most frequently applied management accounting and controlling tool. Given the nature of the paper, it has been emphasised that budgeting, similarly to other tools if inappropriately used, may not bring about anticipated results; on the contrary, it may even generate losses. While emphasising the importance of controlling in the company management process, the paper also highlights the employee motivation system.

**Keywords:** controlling, budgeting, costs, revenues

## 1. Introduction

Globalisation of the world's economy is forcing entrepreneurs to change their management systems and conditions of conducting economic activities, and to transform their rigid structures into more flexible ones. The enterprise's flexibility depends not only on the adaptation to the changes in the environment, but also on the possibility of choosing different scenarios developed in an organization (Dźwigoł, 2015, p. 1).

In every enterprise, management related problems are subject to ongoing changes resulting from the network of relationships, dependencies and ongoing feedback from the environment. An enterprise wishing to be a business professional cannot act spontaneously and rely solely on its own intuition. Actual management requires an organisation to constantly develop and be present on the market for a long time, generating profits and meeting their customers' needs. That is why the management's actions should be thought out and based on solid foundations, on a detailed action plan in all the areas of operation of the organisation.

Under fierce competition, enterprises are looking for ways to improve their financial performance and find effective management tools. Undoubtedly, controlling used to form and control the financial result is one of them.

In practice, many organisations first try to control costs and find opportunities to improve their sales profitability in that area. To do so, they use a set of controlling tools, for instance budgeting, budget implementation level analysis and result reporting. In order to succeed in the performance of the tasks set out in the budgets, they need to be accepted by everyone participating in the budget implementation process. Organisation employees should identify themselves with the goals of the company and the tasks carried out. The ability to control processes in the course of their implementation needs to be maintained. Implementation of a motivation system aimed at increasing the employees' performance is an important element of the task implementation process.

In operative planning, control and management, existing capabilities (resources) are always the starting point. They include the existing production and sales programme, company provision with equipment, employees' current qualifications and the financial capital available (Vollmuth, 2000/2003, p. 14).

In practice, we can observe a need for continuous improvement of the controlling system resulting from the high volatility of the environment, the increase of competitiveness on global markets, and the high innovation in many areas of the economy.

Based on several years of practice, the paper emphasises the importance of controlling, allowing for the responsibility centres and setting transparent rules and competences of them.

## **2. Budgeting process organisation**

According to the rules of systemic activities, the controlling system is characterised by structured solutions. It is a logical system of orderly connections of structural elements of an enterprise that take part in the activities of various functional areas in order to make the right decisions of an operational and strategic nature.

The controlling module is a company's organisational structure with a specified functioning mode that enables observance of the controlling rule, i.e. determination of the base, calculation of deviations, and deviation analysis and evaluation (Dźwigoł, 2011, p. 61).

A budget is a set of tasks to be performed in a marketing year and presented in a uniform manner. A feature of the budget is to demonstrate that the economic equilibrium which should underlie the activity of the Company is actually maintained. Flexibility is a feature of a good budget.

The planning, budgeting and plan implementation controlling process in enterprises is an ongoing process covering the following, closely interrelated elements:

- strategic planning (multi-annual plan),
- operational planning (annual plan),
- budgeting (quantification of the values planned for individual responsibility centres) (Sierpińska, 2006, p. 23).

Effective operational and strategic management depends on a well-implemented and professionally used controlling system. Individual development of a concept and embedding it in an appropriately configured IT system is a feature of contemporary enterprises. Based on years of observations, it can be stated that appropriate accounting and planning modules support the operational and strategic management process, providing instant feedback on the result forecast in real time.

Planning, which is a continuous process and does not end with the agreement on and approval of plans, their delegation for implementation to individual operational levels, as at this stage it may require an adjustment to the changing environmental conditions, is the primary function of the controlling process. The controlling system extends the scope of planning with budgeting, i.e. quantitative expression of plans and tasks with respect to short periods of time.

Most organisations develop material and financial plans based on their own experience, their own views and evaluations. Research shows there is no plan that cannot be contested (Buk, 2006, p. 9) as each of them is based on anticipated macroeconomic determinants and planned changes within the organisational unit as well as on historical data.

This paper presents the budgeting process based on the author's experience.

The plan being developed should be based on all the assumptions determining the formation of basic economic and financial assumptions available at the time of development, any changes in tax law, anticipated changes in the immediate environment of the company, and a diagnosis of other factors which might significantly affect the value of the anticipated financial result.

A list of table templates, specifications and other documents required to develop the plan is submitted to the head of the entity. If there is a need to supplement planning data and information, the Controlling and Risk Management Team provides additional documents, separately approved by the Head of the Team, to the organisational units to complete them. Tables, specifications and other documents completed by the organisational units need to be accepted in writing by one member of the Management Board of the Company at the minimum. Electronic copies of those documents need to be e-mailed to the Controlling and Risk Management Team for further processing. Following acceptance by the Management Board of the Company, the draft material and financial plan for a given year should be approved by the Supervisory Board.

Each enterprise has its own internal organisational structure in which departments and divisions are assigned specific areas of responsibility. Following accomplishment of all the planning assumptions and tasks of all the units, the plan is subject to relevant management control.

Following completion of the planning process, costs and revenues are monitored in monthly periods, after the end of each accounting month.

Strategic controlling, similarly to operative controlling, is a task of the management of the enterprise (Kowalska, 2001, p. 14). It is but the top management that should plan activities leading to solutions providing profit generation potential. However, strategic planning itself will not result in long-term profit generation, so the process itself as well as its implementation should be controlled, too. This is a classic controlling tasks arrangement, subject to that it concerns a long period of time: planning – steering – controlling.

Starting with quantitative differences that describe changes to factors affecting the profit generation potential, strategic planning is aimed at determining and shaping the level of changes to the company's strategic potential (Skowronek-Mielczarek, and Leszczyński, 2007, p. 24). Plan development in monetary units enables determination of the flow of revenues and costs in a long-term perspective which, in turn, is required to develop a strategic budget.

Heads of individual units are authorised to monitor the costs relating to the area they manage on an ongoing basis.

This paper emphasises the particular role played in the controlling system by human resources which are the greatest value of the enterprise.

Based on long-term experience, the paper shows the Controlling Sheet mechanism which serves its purpose by promptly informing where the organisation is and in which direction it is going.

In order to ensure effective methods of ongoing and prospective supervision over the shaping of adequate economic and financial relationships of the enterprise, Revenue Controllers and Cost Controllers have been appointed from among the employees.

Some members of the Sales and Marketing Team have been appointed Revenue Controllers responsible for analysing and forecasting revenues of individual divisions of the enterprise. The task of a Revenue Controller is to supervise a specific division's revenue from sale generation process by means of monthly reporting in the form of the Revenue Controller Sheet.

There are also Controllers of Costs by Type recorded within team 4, among which we can distinguish Controllers of Costs of Depreciation, Material Consumption, Fuel and Equipment, Energy, Repair Services, Transport Services, Emergency and Repair Services, Telecommunications and IT Services, Technical Inspection Services, Studies, Expert Opinions, Scientific and Research Work, Remuneration, Surcharges on Remuneration, Insurance, Training and Courses, Rents and Leases, Lump Sums for the Use of Private Cars for Business Purposes, and Official Delegations. The task of a Controller of Costs recorded

within team 4 is to supervise, analyse and forecast the level of the type of cost assigned to them by means of monthly reporting in the form of the Cost Controller Sheet.

There are also Division Cost Controllers controlling costs by type of activity recorded within team 5. Among them, we can distinguish Controllers of Costs of all the divisions of the Company; among them, within the structures of the Physical Protection Division, Controllers of Area Costs (all the mines protected), and Controllers of Department Costs and General Overheads. The task of each of the foregoing Controllers is to develop a forecast of costs in the form of a Division/Area Cost Controller Sheet as compared to the approved Plan for a given year, and to clarify significant deviations between the execution and the plan, the forecast and the plan, and the forecast and the execution.

Apart from the foregoing, there are Cost Controllers within team 6 controlling products, prepayments and accruals, and Cost Controllers within team 7 controlling other operating revenues and costs as well as financial revenues and costs.

All the revenue and cost controllers have been obligated to submit the controller sheets by the 25th day of each month to the Controlling and Risk Management Team. Controller reports should provide for the reasons for deviations, conclusions and suggestions regarding implementation of remedial measures to avoid the risks observed. Each controller is authorised to initiate and submit proposals regarding organisational and technical solutions leading to the rationalisation of the level of the costs which they supervise. The Controlling and Risk Management Team is obligated to analyse all the proposals and submit them for approval to the Management Board of the Company.

Apart from the Cost Controller Sheet and the Revenue Controller Sheet, an important role in the arrangement of the enterprise budgeting is played by the Annual Report on the activity to be managed, covering a given year and containing the following information

- subject matter and scope of business (type and scope of services provided need to be specified);
- revenues and costs incurred in a given year (revenues generated and expenses incurred in a given year as compared to the previous and the planned year need to be specified);
- main recipients of services (a list of existing and acquired customers needs to be developed);
- factors affecting the increase in sales as compared to the plan (main reasons for the increase in revenues, e.g. change of rates, or acquisition of new customers, as compared to the approved plan, need to be specified);
- factors affecting the decrease in sales as compared to the plan (main reasons for the decrease in revenues, e.g. termination of a contract/agreement, change of applicable rates, as compared to the approved plan, need to be specified);

- reasons for the increase in costs as compared to the plan (major events such as additional purchases, change of employment level, use of additional services, e.g. subcontracting, affecting the increase in costs, as compared to the approved plan, need to be specified);
- reasons for the decrease in costs as compared to the plan (events affecting the decrease in costs, e.g. lower demand for purchases of materials, equipment and third party services, reorganisation of the department employment structure, use of cost regime need to be specified);
- employment and remuneration policy pursued by a Division in a given year (employment level at the beginning and the end of a given year, and number of admissions and dismissals at the Division controlled need to be specified);
- training, refresher and additional courses (training and courses carried out, and their value need to be specified, an overall assessment of training needs to be provided);
- repairs completed and capital expenditures incurred by the Division (quantitative and substantive scope of repairs and investments at the Division need to be specified);
- overall evaluation of the result generated by the Division analysed in a given year (result needs to be evaluated as compared to the result of the previous year and the result planned for the given year, and overall economic situation of the Division needs to be evaluated);
- division development strategy for the next planned year (perspectives, intentions and Division development directives need to be specified, possible risks need to be analysed, remedial measures need to be suggested);
- evaluation of the marketing and sales policy pursued by the Division (number of prepared tender documents and successful tenders need to be specified, unsuccessful tenders need to be detailed and explained). Also, the number of customers acquired needs to be specified, and any efforts, e.g. phone conversations, e-mails, direct meetings, making offers to sell services need to be described.

The Annual Report on the activity to be managed, covering a given year, is submitted by the responsible units to the Controlling and Risk Management Team by February 18 of a given year, in paper and electronic format.

The above original tools are used to provide the Management Board with the most feasible material and financial plan being a map and a signpost for the managing body on the way to the objective set. At present, controlling teams are using planning and accounting modules which are the primary tools of the Strategic and Financial Controlling in enterprises.

In the article presented, the author aimed to prove that the module developed enables concurrent control of high costs by type incurred by the entire Company as well as the results of individual Divisions, which enables prompt response in the event of disturbing deviations from the planned values of both revenues and costs.

The tool presented also enables the forecasting and controlling of the manner of accounting for overheads, which affects possible optimisation of Division results in the event of changing micro- and macroeconomic conditions.

The controlling system is a tool to select corporate tasks and objectives, to assist accomplishment of them, to align them with the general corporate strategy, and to evaluate the level of accomplishment of the objectives set. As multiplication of the owners' capital with generated profits is the primary purpose of an enterprise in the long term, controlling as a system to accomplish the objective is a tool to control the financial result of the enterprise.

### **3. Summary**

The article presented confirms that in order to be efficiently managed, an enterprise needs to use controlling tools. A difficult market does not only depend on consumers' financial capabilities; problems related to entering external markets require constant adaptation to change. Selection of products and services requires ongoing market observation and flexible response with the resources at hand.

In many respects, the strategic controlling system does not need to depart from the traditional model. The main differences may result from the strengths and weaknesses of the enterprise, the ability to flexibly adapt to the main contractor's policy and the market developments in the country.

The management of the enterprise need to have the right approach to their employees who, to a large extent, determine the competitive advantage. Adequate positioning of the controlling department or the controller within the organisational structure needs to be remembered as well. The higher the organisational structure level, the higher the controlling efficiency.

The above organisation of the controlling system in the management of the entity, allowing for the controlling tools and the organisation of the budgeting process, may be used within virtually any service enterprise, irrespective of its legal form or scale of operations.

An effectively functioning management information system must be focused not only on the processing, but also on the organising and prioritising of information, with the information for the system not only originating from within the organisation (financial statements, off-balance sheet data, information from various organisational units, etc.). A large portion of information of significant importance to the enterprise may originate from external sources.

The ability to promptly respond to the changing environment of the enterprise, the ongoing monitoring of the economic condition of individual divisions, identification and examination of current and potential risks related to the operations of the Company are

a measure of effectiveness of the controlling instruments implemented and used within the Company.

One of the most important factors is the correct financial management of the Company, including maintenance of the correct financial liquidity rate, diversification and increase of the number of revenue sources, ongoing supervision over the level of use of external sources of funding, use and optimisation of human resources in line with the current demand for the services provided.

Based on the analysis of the operations of the enterprise as well as on practical experience, it may be said that the functioning controlling tools fully meet the current and potential needs of the management board of the enterprise as stipulated by the management accounting principles. In the event of a potential emergency, the controlling management system used makes it possible to provide the management board of the enterprise with warnings well in advance and with respect to all the areas of its operations.

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