

**Microeconomics**

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**FACTUAL AND CONCEPTUAL
FUNDAMENTAL PRINCIPLES
OF CONTROLLING****Abstract**

The author characterises the controller's work in middle and big businesses as the transposition of the function of management. Special attention is directed to tree groups of work: evaluation of operational accounting, management consulting, auditing, and organisation of company's weak area elimination.

Key words:

auditing, controller, controlling, tasks of controlling organization, the controller's specialist knowledge.

**1. To the Concepts of «Controller»
and «Controlling» in Modern Businesses**

The Controlling-concept for businesses got from the USA to Europe in the 60-s. In Germany, businesses started to introduce the Controlling-concept about 1970 in the practice of management. In theory and practice, the differences can be determined in the understanding of Controlling. Controlling is applied differently in different companies.

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Deviations in the activity planned and the results reached activate the controller. Deviations become visible through comparisons. Comparisons are enforced between planning figures and results. Through deviations, the controller looks for measures for changes in the leadership of a business. It is with it, as well as different levels of management involved, as also different functional areas of management. Through deviations, the business learns to look for new methods of piloting. It makes the business more effective. Each deviation is a signal for necessary changes. Deviations justify themselves not only through internal processes. Deviations also result from changes in the operational environment. The controller must look for possibilities in order to try on the business in a new environment. Controlling in business is therefore considered as a rule-system. The analysis of deviations causes a learning process. The learning process induces changes in business so that the relationship between the business and its social environment remains stable. Controlling is a learning process for the undertaking and its management based on «trial and error».

In their 1983 controller's handbook «Der Controlling-Berater», Rudolf Mann and Elmar Mayer outlined the following characteristics of «controlling»:

- Controlling is a leadership-concept;
- Controlling is goal-oriented;
- Controlling is benefit-oriented;
- Controlling is concentrated on bottlenecks;
- Controlling stimulates company's self-regulation under the influence of environment;
- Controlling encompasses planning, information, analysis, and control;
- Controlling corresponds with current business-philosophy;
- Controlling serves to formulate, pilot and achieve the goals set [1, 1/A 3].

In his textbook «Introduction to General Theory of Operations Management» (2000), Wöhe defines controlling as coordination. The leadership-areas – «planning», «control», «organization», «personnel-leadership», and «information» – must be coordinated. Coordination must be realized so that business goals are reached optimally. [4, 234–235]

The importance of controlling depends on the state and the size of the company. Furthermore, in addition to size of the business, the term controlling takes on special significance if, in addition to the monitoring function, the management of the enterprise is also included.

If a controller is to work positively, he must rely on the following preliminary work:

- 1) the entire accounting system,

- 2) cost-type accounting,
- 3) cost-centre accounting,
- 4) cost accounting.

For each of these accounting systems, one should always be supported by:

- a) estimation of costs,
- b) operational accounting, and
- c) calculation of historical costs.

If the controller is successful in making the employees realize the necessity of the control function, this will naturally make it considerably easier for him to work.

In the case of a public limited company, the controller is under the authority of the Executive Board; nevertheless, he should receive instructions from the chairman of the supervisory board.

Accordingly, the controller's work area includes the following aspects:

- 1) evaluating operational accounting,
- 2) auditing and
- 3) organising.

In his book «Controlling», published in 1984, Zeigenbein presented the development phases of this area of activity from 1950 until 1980 [2]. This period is characterised by increasing mechanisation and striving for higher profits – which finally led to increase in unemployment.

The most important organisational tasks can only be solved successfully if the following organisational principles are considered:

1. The task of every organism – both in nature and industry – is life and performance.
2. Top performance is the result of optimal living conditions for each organism.
3. Organisms are made of organs, which have to act as parts of the overall organism; each organ has to fulfil its purpose independently and consciously within the organism; thus, the organ must know its tasks and job, which also have to be performed according to the established plan.
4. The structure of the organs must correspond to the purpose to be achieved, that is, they must be duly considered in preliminary calculations. If the planned measures are not taken into consideration in their entirety, this will automatically have a detrimental effect on current performance.
5. The in-company organisational tasks should not be «one-off» in nature; they should be of a lasting nature and be able to adapt to changing aspects of life and, if necessary, improve and change.

6. Every person and/or machine has a task to perform since not every take-over of functions is suitable for each planned process.
7. In order for everyone and every organism to perform well, appropriate recreational breaks must be planned; otherwise the planned performance will not be produced.

The task of the controller today is structured according to the size of the enterprise (basically three sizes possible).

At present time, controlling should, in addition to its aims and uses, also involve a crisis-orientated concept. In this way, the managerial personnel could be assigned the task of working together with the controller. Such a positive collaboration would soon make positive advantages recognisable. In order to achieve this, the position of a controller should be designed as executive, with his proposals recognized in full.

With time, certain subdivisions of enterprises have also developed, such as:

- a) controlling as a staff position,
- b) controlling as a linear position,
- c) controlling as a divisional position,
- d) controlling as a matrix position.

Thus, the controller's tasks can be said not only to include analysis and evaluation of balance sheets, but also the analysis and evaluation of the costs and benefits accounting.

Such details are intended to facilitate planning of individual cost positions. Should the controller find mistakes in accounting positions, he must arrange for a thorough review of the matter. If the mistakes occur due to organisational reasons, the organisation itself must review either the individual areas of its present structure, or its activity as a whole.

2. The Controller's Tasks in the European Union

The controllers of German enterprises and companies of the European Union have been assigned the following tasks:

- a) To offer consultancy and co-ordination in the listing of income and expenditure for the next period.
- b) Not only to advise about ways and means in the planned method of procedure, but also to adapt and co-ordinate the points of emphasis.
- c) To check whether cost accounting corresponds to planned activity and whether the company's objective has been achieved. This applies

primarily to the accounts of class 9 (92 and 93) and adherence to them.

- d) Recording of current internal auditing and organisation.
- e) Drawing up control, auditing and organisational reports.

In all the above-mentioned tasks assigned to controller, care must be taken to ensure that the controller and his staff do not take over the tasks of planning.

It is often asserted in text-books that company's planning is part of the controller's tasks. If planning is taken over by the controller, then the discrepancies in this area become unavoidable. A person who sets something up should not be responsible for checking it himself. When a company elaborates its plan, the controller may only draw attention to past mistakes in order to avoid them being repeated. In determining the tasks of the controller, the organisation has to be structured in such a way that to avoid overlaps of individual points in order to reach the established objectives.

The task of controlling organisation has to be structured in such a way that no overlaps ensue in the co-ordination of individual points and running of the production process, in other words, that the process can be conducted without any great difficulties.

Depending on the size and form of the company, different forms of organisations have developed with time (development structure) according to the following categories:

- a) small businesses (Figure 1)
- b) medium-sized companies (Figure 2)
- c) large enterprises (Figure 3).

The controller is obliged to use his knowledge to inform and help elaborate the appropriate positions of the business plan. He controls decisions affecting long-term planning.

These investigations are intended to support the prognoses related to operating results. It is not the task of the controller to decide independently by himself on the amount of operating results. His function is to ensure that in case when the responsible positions make deviations from the plan, the appropriate measures can be taken as quickly as possible to eliminate these deviations.

Thus, the main point of emphasis in the controller's tasks is to assist the company's management by supplying information and not to take over planning.

As an example of a specific company, Figure 4 represents the role of controlling in *Volkswagen* in 2003.

Figure 1.

Organizational Plan: Small Business

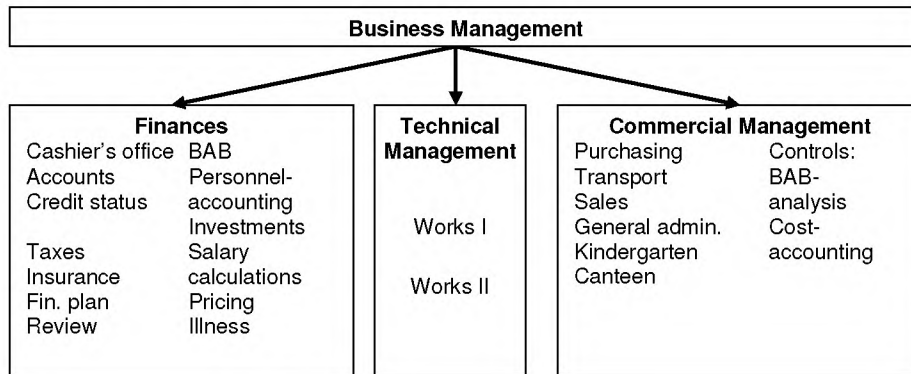


Figure 2.

Organizational Plan: Medium-Sized Business

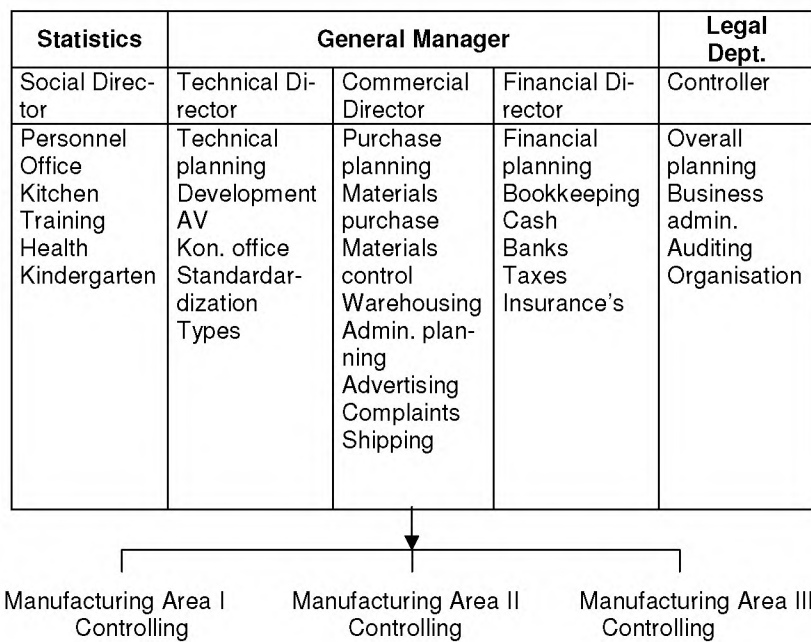


Figure 3.

Organizational Plan: Large Business

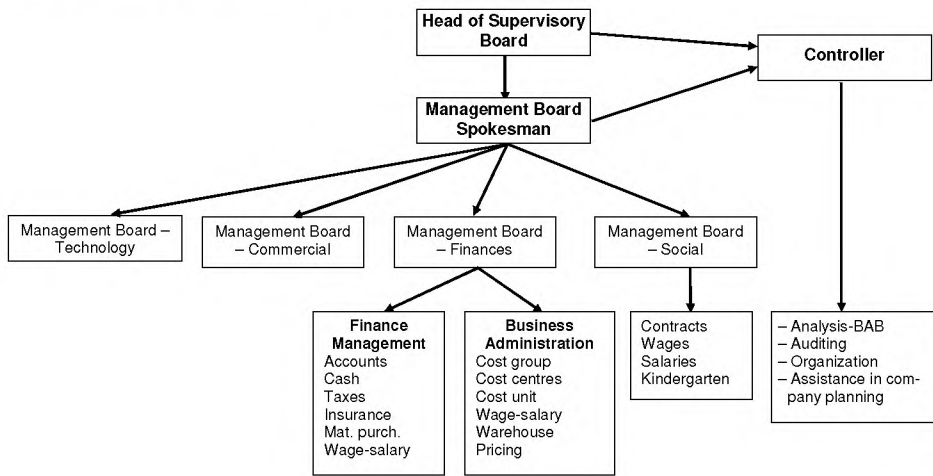
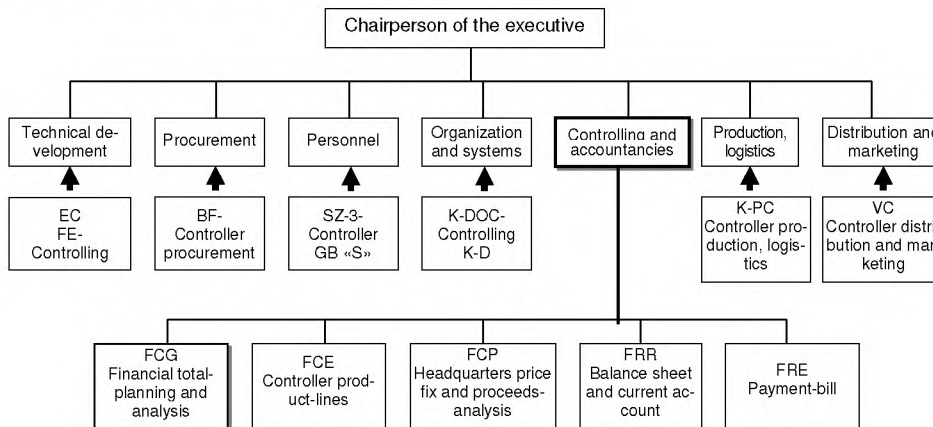


Figure 4.

Organizational Plan of Volkswagen [6]



In order to avoid any differences in the interpretation of results between auditing and controlling, the internal auditing is a part of the controller's job. The same also applies to the organisation.

As a result of the determination of the net product, it is possible for the controller to produce evidence for every group of products or every product about the feasibility of its production. By means of comparison of the estimates with the results on the basis of the net product, it is possible to execute the controls (plus or minus) more quickly. Controlling should be a target benefit and crisis-orientated management concept. The work of the controller not only involves the evaluation of balance sheets, but also the evaluation of the costs and benefits accounting. The controller should supply instructions for planning by means of information to the individual accounting positions.

3. The Place of Controlling in the Organization Plan of the Company

According to the organizational plan, the controller is to be treated as a separate department in the company. Whether or not the differences of opinion ensue between the executive positions and the controller depends on the allocation of tasks, as well as the personality of the controller and his treatment of the resources.

For devising the organizational plan of a company the science and practice elaborated different opinions and methods. Each company must work for its reason-scheme itself. Changes in operational environment also have an effect on later corrections in the operational organizational plan. The initiative of such changes should be assumed with the controller who analyzes deviations and formulates suggestions for changes.

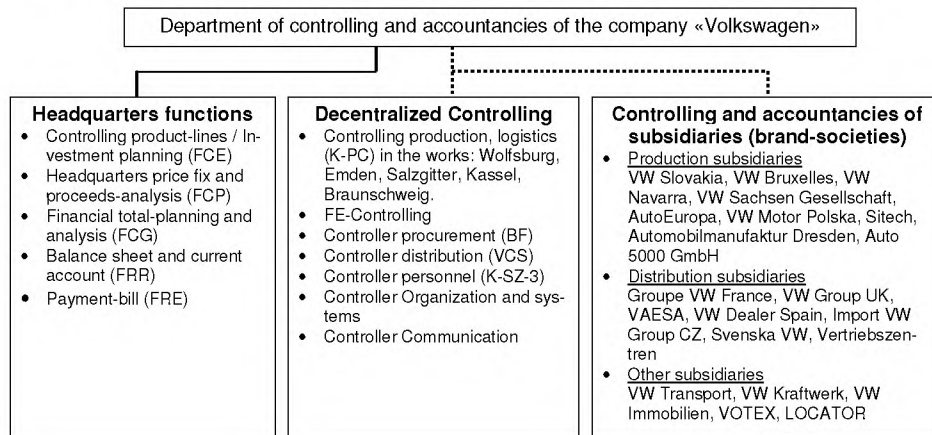
One of the different opinions consists in different assignment of internal revision and controlling into the management-levels. As Bransemann points it out, internal revision should be equipped with neutrality in the organizational plan [3: 84]. Controlling has supervision-tasks against it from bygone processes with suggestions for future developments. Should the controller find mistakes in the analysis of accounting positions, he must arrange for a thorough review of the matter. If the mistakes arose for organizational reasons, then the organisation itself must revise the organizational structure of these positions as applied so far. Subsequently, some organizational plans are introduced.

At *Volkswagen*, controlling belongs to the upper-management level. Controlling forms a department with the accountancy of the company. The department Controlling and Accountancies (C & R) is divided into three areas (Figure 5):

- Headquarters functions,
- Decentralized controlling,
- Controlling and accountancies of subsidiaries (brand-societies).

Figure 5.

The Department Controlling and Accountancies at Volkswagen Co. [6]



4. Auditing

The basis of auditing is the balance sheet, profits and loss accounts, and cost accounting.

The factors which influence the development of the above-mentioned areas are primarily the requirements of the people in the company and the supra-ordered positions, e. g. business management, workers' representatives, supervisory board and shareholders' representation.

The typical audit periods are the month, the quarter and the year. In addition, there are special audits. The audits are intended, in particular, to give precise information about the results of the activities of an enterprise in question through the audit, following a thorough review. A review report should be drawn up for each audit conducted. It should give precise information about the conclusion or the result of the company investigated.

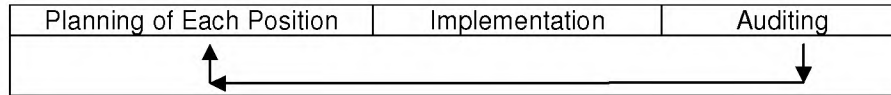
In addition to the audits which have to be conducted at specific intervals, as already stated, special audits are to be carried out when the prescribed tolerances are exceeded. The audits are always carried out when the following results are exceeded. These include the following points:

- a) Surpassing of primary costs,
- b) Deviations relating to overheads,
- c) Non-adherence to prices and, thus, also to overall results,
- d) Explanation of the costs and the results according to class 9.

The structure should be done as follows: as a result, the plan of each department should lead to better presentation. With better presentation, the individual processes can also be represented graphically (Figure 6).

Figure 6.

Planning and Auditing



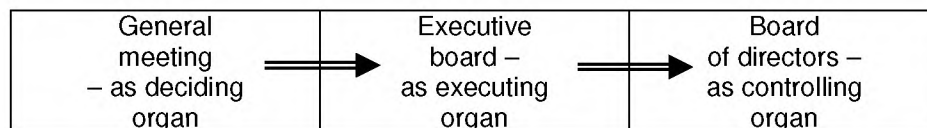
This representation is intended to lead to agreement between the actual state and the plan of every position or department.

Each review report should not only be presented to the executive management for them to give their opinions; it is essential that such reports are always presented to the chairman of the supervisory board.

On account of the great responsibility involved, the chairman of the supervisory board should not take over more than 2 positions of the same nature. The separation of powers can be presented as follows (Figure 7):

Figure 7.

The Separation of Powers



The number of persons in the listed positions is legally stipulated; some points, however, would have to be subject to correction.

In addition to the tasks already described, special attention has to be drawn to the controller's specialist knowledge.

The controller's specialist knowledge includes:

- a) studies of the science of business economics,

- b) a command of accountancy,
- c) a command of statistics,
- d) computer science and,
- e) a lot of fundamental principles of auditing.

In addition, a controller should have some knowledge of foreign languages. As a result of the EU enlargement, the knowledge of foreign languages has become essential – this is true not only for western, but also for eastern languages.

Furthermore, the controller should have the following qualities:

- a) the sense of responsibility,
- b) the ability to assert himself,
- c) the ability to be effective,
- d) good negotiating skills.

As a result of his knowledge, he is obliged to help the appropriate positions with information in drafting the business plan. He controls the decisions which affect long-term planning. These investigations are intended to support the prognoses relating to operating results.

It is not the task of the controller to decide independently by himself on the amount of operating results. His function is to ensure that should there be deviations from the plan, the responsible positions can take appropriate measures to eliminate these deviations in short time.

Thus, the main point of emphasis in the controller's tasks is to assist the company's management by supplying information and not to take over planning.

In order to avoid any differences in interpreting results between auditing and controlling, the internal auditing is a part of the controller's job. The same also applies to the organisation.

According to the organisational plan, the controller is to be treated as a separate department in the company. Whether or not the differences of opinion ensue between the executive positions and the controller depends on the allocation of tasks, as well as the personality of the controller and his attitude to the other resources.

As a result of determination of the net product, it is possible for the controller to produce evidence for every group of products or every product about whether it is worth producing certain products within the company. By means of comparison of estimates with results on the basis of net product, it is possible to execute the controls (plus or minus) more quickly.

5. Organisation

Within the scope of organisation, the task of each position is to quickly eliminate the mistakes which transpire. The task of the organisation is thus to establish, by planning, order in running the business, for example, by creating new regulations for the areas where mistakes are discovered. There are different ways of designing an organisation, through standards and types which then represent the basis for serial or mass production, formation of standard norms for the same makes, stipulation of the same principles for the same makes and technical sizes.

A further possibility is in breaking down the appropriate work elements. Some work can be facilitated by formation of conveyor-belt work or, at the present, by using computer systems to carry out work. Under organisation we understand achieving the highest performance with the smallest input of human labour.

Another way of expressing this would be to say that the tasks set by administrative offices are completed in the time and way foreseen. Thus, it can be said that organisation means fulfilling the tasks set in the most meaningful, simple and economic way.

In order to achieve the best results, it is necessary to draw up a plan for every position in the business, which we simply describe as an organisational plan. This should be drawn up according to the principles set, which are the following:

- 1) Achieving best performance by means of best social conditions.
- 2) Each working person has to know the work being done before and after him.
- 3) For execution of the tasks set, well-trained labour should always be used.
- 4) As the organisational task is not of a «one-off» nature, it must always be kept up-to-date.
- 5) For the work force to perform continuously well, it is necessary to plan work breaks, as well as use better tools and machines to ensure high labour productivity.

6. Project Controlling

At the present time, the significance of projects grows in companies, social organizations, research institutes, and universities. Also in these projects, a supervision to do is necessary through controlling. Projects must become controlled, the success must become secure, and a report must be produced. Steinbuch represents three tasks of project controlling [5: 253-258]:

- Data-investigations,
- Comparison of results with the plan,
- Deviation-analysis.

Normally, the project-manager or project-leaders must have the necessary data ready.

The following tasks belong to data-investigation:

- Project-processes become determined as «enforced» and «not-yet-begun»;
- Use of the workers per days, weeks and months after the plan is represented;
- Consumption at fact-methods is determined;
- Previous expenses must be structured per expense-types (personnel costs, capital expenses, material expenses, computer expenses, miscellaneous expenses).

These data are determined periodically and compared with the plan.

Deviation-analysis is enforced with the observation of deviations between the plan and the current data. The meaning of deviation is determined with it. Then, the measures are proposed in order to be able to complete the project at the goal-time. These measures include: the use of additional worker in the project; parts of the project can be transferred to other companies; diminution of project-tasks; relinquishment on certain project-goals; alteration of the project-plan.

In conclusion, it should be noted that the main essence of the project result consists in proper realization of the controlling function.

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