SYSTEM AND METHOD OF THE IMPLEMENTATION OF CONTROLLING AT INDUSTRIAL ORGANISATIONS IN THE CZECH REPUBLIC

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Abstract

The paper deals with the current condition and development of the implementation of controlling in Czech industrial organisations. The authors based their paper on available statistics and research reports and their own questionnaire survey in the framework of which they addressed 57 and 43 large and medium industrial organisations in the Czech Republic. Results of the completed survey indicate that an essential change in the form of a positive approach to the implementation of controlling in Czech industrial companies is related to impacts of the 2008 – 2013 economic recession as well as to the current lack of stability on the Russian market in the direct context of imposed economic sanctions and the fall of the Russian currency. Top management members and owners of industrial organisations started to perceive and use controlling as an efficient management tool that makes it possible for them to evaluate individual activities in an efficient way as a presumption for an efficient operation of the entire organisation.

Key words: industry, controlling, Czech Republic

JEL Code: L11, M21

Introduction

Industry in the Czech Republic employs more than 40% of all economically active population. Core Czech industries include chemical industry, machine construction industry, food processing industry and metallurgic industry. Less important industries are the arms industry and glass industry. Industry is one the most important segments of the Czech national economy (it represents some 35%) and it generates an essential portion of the national product.

The task of the management of each industrial organisation is to find an optimal method of the valorisation of invested means, exploitation of available resources, creation of required product and achievement of required objectives (Šikýř, 2011). Successful fulfilment of this management task requires an efficient tool for the examination and assessment of the

usefulness and efficiency of the implementation of individual managerial activities and their impact on the organisation performance (Stříteský, 2013, Nemec et all, 2008).

Such a tool is controlling defined by Eschenbach & Siller (2012, p. 35) as "a planning, checking and control concept for all lines and hierarchy levels of the company".

However, to understand the right essence of controlling, we have to understand the link between strategic planning, operative planning, evaluation and risk management. This issue has been dealt with since long time by Karel Havlíček (2011). His description is consistently based on company process management on the management-controlling (MC) basis.

Results of the survey that included machine construction companies with an implemented controlling system confirmed lots of information from the point of view of their structure concerning the relation of the transformation of individual and methods and tools that implement controlling systems in Czech industrial organisations.

1 Goals and Methods

Two basic sources were used for the collection of empiric information: These were secondary sources of information contained in statistics and survey reports and information from our questionnaire survey.

As far as the first group is concerned, we worked with publicly available sources in the Czech Republic that deals with the field of controlling in industrial organisations and sources defined in the content of this paper. Other sources of secondary empiric information were qualitative studies and information published in specialised journals. We also used sources of information on the level of national data that included information provided by the Czech Statistical Office, Confederation of Industry of the Czech Republic or Controller Institute etc. or private institutions. Other significant sources used included special studies of consulting and auditing companies on industry and controlling or information from conferences on the handover of information on controlling sources.

We used the above information sources to describe the condition of the Czech economy and in particular industry when we focused on description of conditions controlling has in industrial organisations. In order to describe individual methods and tools that shape controlling systems in Czech industrial organisations, we created a questionnaire form and carried out a questionnaire survey. Questions were focused on situation in individual companies and measures taken by such companies since 2008. Another source of empiric

research was the creation of a case study using a single large company in the period 2008 – 2014 as subject-matter of the survey.

In order to gather primary information, we addressed CEEC Research (2015) that carried out the questionnaire survey in medium-sized and large companies that rank among its significant users. The questionnaire included 18 essential questions. The total number of respondents addressed from 30June to 16 July 2014 was 100 companies structured as follows:

- 57 large companies (employees headcount higher than 100), the survey was based on phone calls with individual company representatives,
- 43 medium-sized companies (employees headcount up to 100), the survey was based on phone calls with individual company representatives.

The reason of the division of industrial organisations to medium-sized and large companies when collecting information by means of the questionnaire survey in the Czech Republic was our endeavour to compare individual industrial companies with regard to their size and resulting implementation of controlling in relation to the still ongoing recession.

The goal of the empiric survey was to describe controlling practices of Czech industrial companies. The description should depict the current condition of individual industrial companies divided into medium-sized and large ones with regard to the development of the recession. The survey covered both topics concerning the content of controlling activities and company controlling organisation.

2   Results and Discussion

The following findings were based on the results of the empiric survey focused on the implementation and organisation of controlling activities.

2.1   What form of controlling does your company use?

The great majority of respondent companies implement controlling using their own internal resources and only an absolute minimum of respondent companies outsource controlling services (they hire a third party company). This share applies to both company size categories. The difference between the medium-sized and large companies resides in the fact that medium-sized companies do not hire any outsourced controller at all meanwhile only 2 % of large companies employ an external controller.

Based on the above findings on individual companies and also based on personal interviews with some controllers, we can conclude that almost all respondent industrial companies deal with controlling. The form they use is outsourcing of human resources. However, if we focus on the quality of its application, its setup, implementation, exploitation etc. as a respected and accompanying model, we have to conclude that its quality implementation has not been by far fully completed and it is not fully respected. The core problems of its incomplete implementation in many companies include the following: funding, lack of information, lack of confidence in the unknown system, attempt to manage the company from the position of owner/manager, often confusion with already completed company tasks (such as for example planning, reporting and interpretation, evaluation and consultancy, tax matters etc.). This may be why we can speak about company controlling as late as when the company disposes of an integral and coordinated system of planning, inspection and information coverage supporting the management team that is responsible for the fulfilment of a full set of tasks. (Konečný & Režňánková, 2000)

If we have to prepare a list of industrial entities that have developed the controlling system from the best to the worst one based on our findings, the order is as follows: a) multinational groups, b) large companies, c) medium companies, d) small companies.

2.2   Who is responsible for controlling in your company?

As a rule, controlling is the responsibility of several employees working at various departments where they are charged with some other tasks, too. The proportion of individual answers given by medium-sized and large companies is comparable. Larger industrial companies have more often specialised controlling departments.

A representative of a large multi-national group included in the empiric survey told us in the interview that the company strictly separated controlling and controlling positions from financial departments. Interestingly, each independent branch has its own controlling department employing more than one worker as a rule and, at the same time, they have no financial manager position or, as the case may be, no financial department. So, we see as very positive that a specific controller (instead of a financial manager as common in many small and medium-sized companies) is responsible for company controlling.

Fig. 1: Who is responsible for controlling in your company? (total)
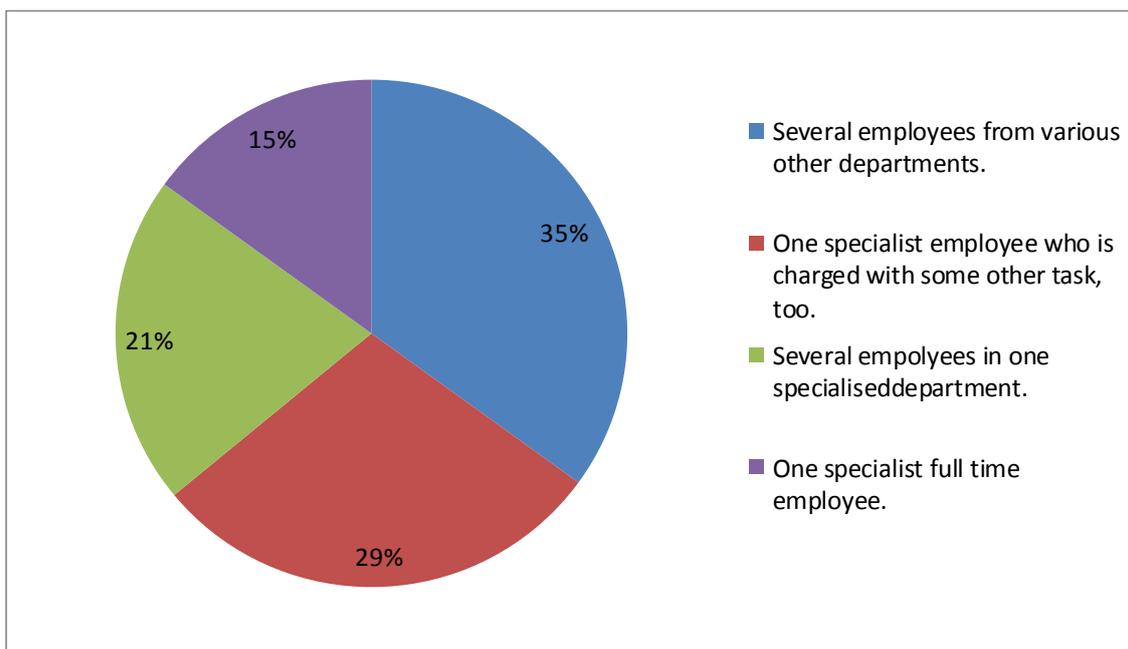
Source: Authors

When speaking with a medium-sized company included in the empiric survey, we were told that the person responsible for controlling was the financial manager (in addition to a number of other assignments). Thus, the position of the financial manager combines two functions and two groups of tasks. On the one hand, there are tasks that are the standard responsibility of the financial manager in companies, including for instance strategic decision in the field of funding and credit procurement, company bookkeeping and reporting administration invoicing etc. The other group of tasks includes those tasks that are associated with controlling and that may be the source of principal economic problems. There is a lack of any information support that should be provided by the controller to the top management, managing director or company owner/partners from the point of view of feedback and company economy streamlining. We have reached this opinion to certain extent due to the conflict of interest concentrated in one single person.

2.3 How is controlling integrated to your company organisation structure?

In most cases, the company's board of directors is directly responsible for controlling, in particular in smaller companies. The comments below indicate that it is often subordinated to the financial or sales manager.

The above confirms that representatives/owners of medium-sized industrial companies have not fully understood the significance of controlling yet and they believe that it is an

accompanying discipline that does not need to be further developed, let alone any investments in it as they have the necessary contacts and know how to manage the company on their own. It apparently indicates one of the most significant personal features that could be referred to as psychological aspects.

Fig. 2: How is controlling integrated to your company organisation structure (in general)?
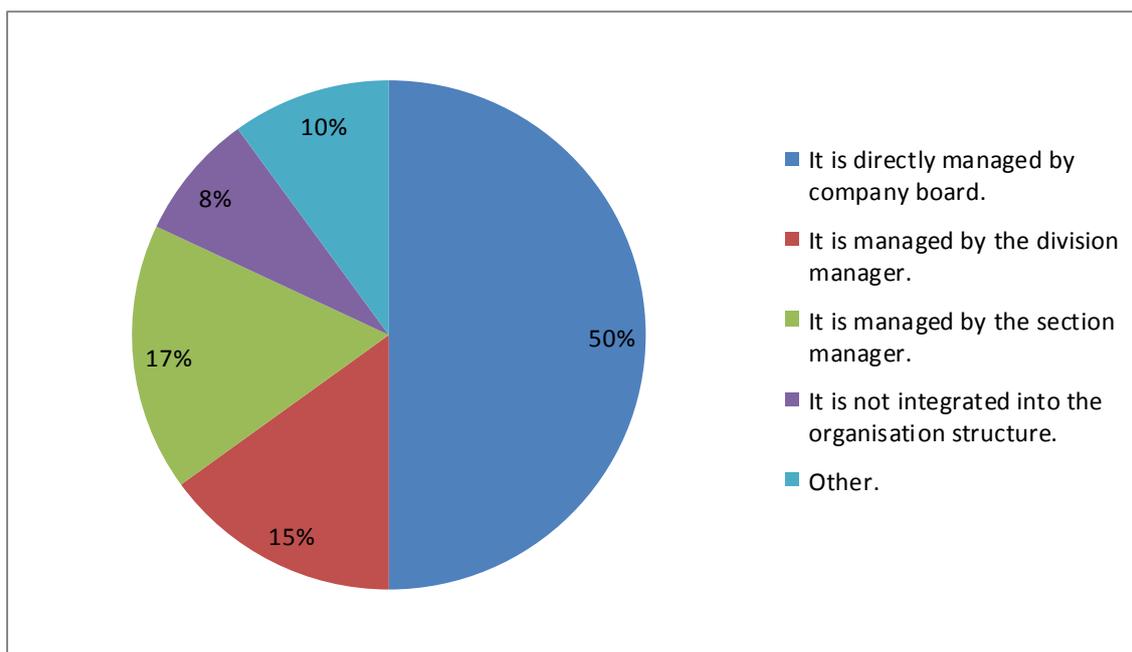
Source: Authors

We were told in interviews with representatives of a medium-sized industrial company that the quality of working relations in this company was affected by the fact that the managing director is a company partner at the same time and he interferes with controller competence. This fact imports an emotional component to the company management, too, as the managing director may sometimes be aware of the fact that he/she is deciding about his/her property. Thus, the managing director does not have a kind of detachment from the management of the company as well as strategic thinking and longer perspective outlook. The company therefore lacks an integral strategy as the managing director with his/her strong position replaces it. Thus, the controller has neither reason nor motivation to contribute to company health if what he/she is doing could expose him/her to stressful situations and it could endanger his/her position.

2.4 Who is the controlling output beneficiary?

Controlling outputs are delivered mainly to company partners or shareholders regardless of the company size. Other beneficiaries are heads of individual divisions, people working for the board of director or supervisory board and heads of individual departments/sections. Less often, controlling outputs are delivered to other persons, for examples see comments in the below table.

Table 1: Who is the controlling output beneficiary (in general)?

	Company partners or shareholders	People working for board of directors or supervisory board	Heads of individual divisions	Heads of individual departments/sections	Other persons
Yes	90%	63%	63%	60%	30%
No	10%	38%	37%	40%	70%

Source: Authors

What should be noted in respect of the delivery of individual outputs to partners or top management members is the following: to have the most precise information possible provided by the controller, it is vital to choose such a hierarchy level that will allow the controller to get sufficient information and be competent enough to make an independent evaluation of the situation for the management support team. What prevails in practical life is the second and third hierarchy level (Eschenbach & Siller, 2004).

The fact whether controlling positions should be established as staff or line positions depends on the level of decision-making powers that should be used by the controller for the fulfilment of his/her tasks. Line structures have direct decision-making powers meanwhile staff departments are primarily used as a relief for line positions by preparing underlying documents for decision-making and providing consultancy services.

The above indicates that the implementation of the controlling system may be successful only where line management is actively engaged in the controlling process and uses controlling as a service function supporting company efficiency as a whole. The above was confirmed by Falko (2014) in his speech at the conference "Controlling at small and medium-sized companies 2014"where he described the situation in the Russian Federation. *"Three years ago, managers' approach to controlling was careful, they did not take it seriously, now they understand it as an inevitable part of their operation".*

As we understand controlling as a kind of support provided to the management team, the establishment of the staff position of the controller at the top management level is the

most common appropriate decision how to anchor result-oriented thinking in the company hierarchy. (Horváth, 2004).

As the company size grows, partial controlling departments are established in addition to a central department. They report to the respective line manager (production controller, marketing controller, plant controller). In such a case, we speak of so called controlling decentralisation. Moreover, based on our data, the significance of project management system and its support by controlling is still growing in industrial companies!

2.5 Do you believe that information provided by controlling affects the decisions of your company managers?

The absolute majority of respondents claimed that information provided by controlling affected the decisions of company managers, one third of them admitted that such an effect is only partial. Representatives of both segments agreed on this fact.

Table 2: Do you believe that information provided by controlling affects decisions of your company managers (in general)?

Yes	66%
Party	32%
No	2%

Source: Authors

Accompanying questions asked in the empiric survey showed that the most essential supporting tool that significantly affects industrial company management team members is reporting. As table no. 3 shows, reporting is believed to have high added value in particular in large companies (91%), this figure in medium-sized companies is (47%) of respondent companies. Thus, the mean value is 72%.

Table 3: Which of the following activities of your company belong to controlling decision- making powers, which are supported by controlling consultancy and which are not dealt with at all?

	Controlling competency	Provides consultancy services	It is not dealt with
Company vision formulation	12%	37%	51%
Strategy development	17%	47%	36%
Planning	59%	29%	12%
Company internal process analyses	52%	33%	15%
Company product analysis	40%	28%	32%
Deviation analysis	60%	17%	23%
Checking fulfilment of strategic goals	54%	30%	16%
Checking of fulfilment of operative goals	52%	29%	19%
Reporting	72%	19%	9%

Source: Authors

Several small and large company representatives told us in interviews that the elementary goal of reporting should be the development of a complex system of indicators and information that analyse not only the development of the entire company but also the development of individual centres and projects that are relevant and vital from the point of view of the company management.

This is why we believe that it is very important from the point of view of reporting output to avoid preparing any report in financial values, only. It should focus onvolume deviations that are important as well. The plan and actual condition of evaluation system can be set up as a single reporting map. Moreover, we are convinced that reporting outputs should also include outputs not only necessary for making strategic decision but also outputs for lower management levels. An unambiguous goal of each industrial company management team should be to focus on medium level management team members´ skills and delegate responsibility for decision-making in certain processes to them in order to engage such employees in the company's economic results. More extensive reporting is referred to also by Němec and Surynek (2015) in another context.

This way of behaviour of individual industrial companies that in a way can be regarded as discipline is not a display of their natural shift to controlling and its activities based some long-term process but a consequence of the recession (2008 – 2013) and based on the unstable Russian market and falling rouble. Many companies did not deal with controlling in the past and if they did, it was not controlling in the genuine sense of the word but just some separate disciplines most of which used to be carried out by economic departments. Therefore, many industrial companies finally had to adopt radical optimisation solutions because of lack of information and protection.

This is why we can already follow individual procedures used by companies and headed by their economic departments evaluating the potential risks based on information gathered by controlling that have an essential effect on subsequent competitiveness, efficiency and economic health (Kosulnikov et all, 2012).

3   Implications and Recommendations

A properly working controlling system cannot be developed on its own. Certain preconditions have to be met and safeguarded for efficient implementation of controlling in a company. What plays an important role is the management style, company organisation, development of the information system, implementation of methodology, introduction of the compensation contribution method etc. What is highly positive is the fact that a number of industrial companies is aware of this and pays attention to the adherence of the set rules. Interestingly, instead of addressing external controlling service contractors, individual companies prefer to rely on their own employees even if they have to hire more of them. This fact cannot be explained other than by the fact that individual industrial companies are both afraid of leak of (economic, trade) information to their competitors and wish to be protected against industrial espionage (development).

Conclusion

As the recorded information indicates, Czech industrial companies have recently started to implement and enforce the controlling system and methods . Measurement, analyses and subsequent changes of the application of controlling methods keep continuously developing and individual departments cannot imagine their work without this software. The survey also indicates that a principal change in relation to the positive approach to the implementation of controlling was triggered mainly thanks to the recession in 208 – 2013. Thus, we can more or less conclude that top management and most company owners praise the benefits of controlling they have been using more intensively and recommend its implementation. This is given also by the fact that they get better arguments for discussions with top or middle management members and it is easier for them to evaluate and compare individual activities, see individual planning changes, reports, outputs etc. based on individual controlling results.

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