LECTURE
OPERATIVE CONTROLLING

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PLAN

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1. Types of controlling and differences between them.

Controlling is a system of managing the objectives achievement and is inseparable part of a company’s management. Today’s management splits the company's objectives into two parts: operative (short-term) and strategic (long-term) objectives. Therefore, controlling allows to control the achievement of both operative and strategic objectives of an enterprise. Thus, controlling as a system includes two main aspects: strategic and operative.

***The objective of strategic controlling* is to ensure the *survival* of a company and to track a company's movement to the *strategic objective* of its development.**

The strategic controlling should help the company to efficiently use the available resources and create new potentials of successful activity in the *perspective*.

It provides the necessary information guiding a company's management while the decision-making process. Strategic controlling identifies goals and tasks for operative controlling.

Strategic controlling tools are:

1. Balanced scoreboard and managing costs during the life-cycle
2. Portfolio analysis of directions of activity in terms of products and markets
3. Matrix analytical tools of evaluating the attractiveness of business
4. Algorithms of work with weak and strong signals, scenario analysis
5. GAP-analysis of deviations between current state and strategic focus.

The *objective of operative controlling* *is to create a system of managing the achievement of current objectives of the company as well as to make timely decisions on optimizing the cost- profit ratio.*

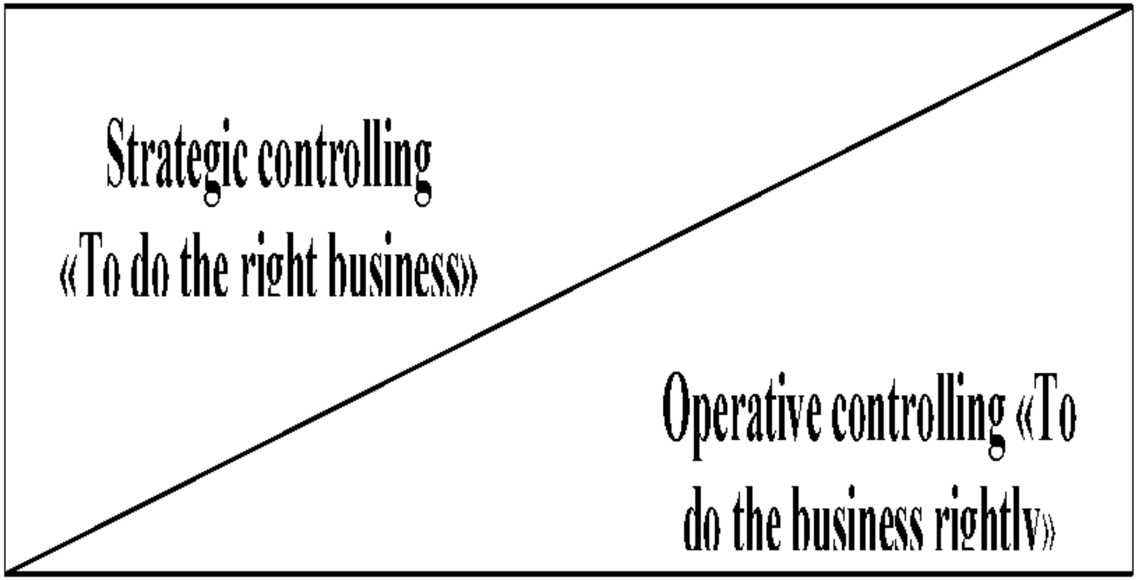
Operative controlling is focused on a short-term result, therefore its tools differs considerably from techniques and methods of strategic controlling.

Operative controlling tools are **managerial accounting and a budgeting system.**

Managerial accounting **considers requirements to organizing a system of collecting and aggregating data for controlling needs.**

Budgeting system **allows to control the process of preparing and approving budgets as well as their executing.** ***Budget*** **is a quantitative short-term plan including the allocation of resources and assigning the responsibility.**

The difference of areas of usage of operative and strategic controlling is presented as:



2. NECESSITY AND THE MAIN TASKS OF OPERATIONAL CONTROLLING

The need in operative controlling caused by the following circumstances:

1. The change in the economic environment due to the continuous technological innovation, leading as a result to the discounting of economic development, which ultimately increases the uncertainty in forecasts:
   1. the market volume
   2. Conduct market partners.
2. Increasing complexity of the process management in the company, leading to a strong decentralization and specialization of the business.

The purpose of operational controlling - formation of the system of control to perform current tasks of the company and timely managerial decision of measures for the optimization of the "input - output".

The goals of controlling system:

a) General

1. efficiency (liquidity)
2. performance
3. profitability

в) Subjectiv

1. Support planning
2. Coordination of the individual parts of the budget
3. Integration of the planning and control
4. Economic control.

The formal part of the controlling includes:

1. Cost reduction
2. Increase of labor productivity
3. Reducing cost of capital

The main tasks of operating controlling are:

1. Support of operational planning:

1.1.) to develop short time operating plans and sub – plans,
1.2.) to develop the managerial plans,
1.3.) to compare the plan with actual,
1.4.) to detect the deflections,
1.5.) to solve this deflections.

2. Budgeting
3. Budget control
4. Information support management

3. Planification of tasks of enterprise. Instruments of controlling.

Operational planning covers, usually one year. It is characterized by its detail and depth. The organizational aspect of operational planning solves the following tasks:

1. Coordination vertically, that is, the coordination of plans with higher authorities and subordinate units.

2. Coordination horizontally, that is, the coordination between neighbouring units, divisions and services.

3. Coordination on time, that is, the coordination of the implementation of the plans on the planned period and steps between them.

4. Coordination of implementation of planned activities, that is, coordination phased planning with the project planning. Through the issuance of targets at the enterprise arise areas of responsibility and immediate concrete performers.

Control on the concept of controlling provides a comparison of actual and planned indicators. In the process of controlling identifies errors in planning or in its practical application. Control is a feedback item in the theoretical model of self-regulating system. It is always necessary to understand that in the process of planning control is meaningless (pointless) and control without planning is not possible.

Instruments of current operative controlling	
Technology of obtaining management information and decision-making:	Analytic (financial and economic calculations focused on managerial decision-making):
• Budgeting • Modeling • Regulation • Pricing	• "Direct costs" • Break-even analysis • Determination of main under control indicators • Deviation analysis • Defining the relationship between indicators: • output, cost, profit.

4. BUDGETING IN CONTROLLING SYSTEM

The central element of effective controlling system is **planning**. Controlling affects the **coordination of planning** and orientation of plans at **achieving** the company's **objectives**.

The detailed elaboration of the strategic plan is carried out by means of developing **budgets** which identify **short-term tasks** within the whole strategy.

Budget **is a plan of future operations in a quantitative format.**

Budgeting objectives are:

- Period planning
- Ensuring coordination, cooperation and communication
- Forcing managers to quantitatively substantiate their plans.
- Understanding costs related to a company's activity.
- Creating a basis for evaluation and control of execution.
- Motivating employees to achieve a company's objectives.

Budgeting system objectives may be achieved if to fulfill the main principles such as:

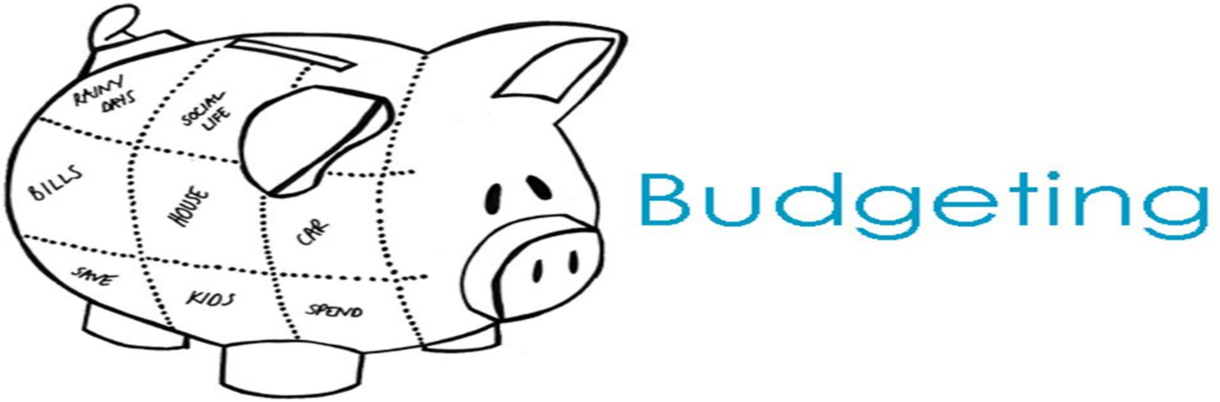
1. **Budgeting system should cover all types of the company’s activity.**
2. **Budget formats and indicators should reflect the system of power and allocation of responsibility within the company.**
3. **Exact identification of responsibility should not hinder the required solidarity of department interests.**
4. **Budgeting system should fit in the frames of the company's general policy**
5. **Forecasts used in the budgeting system should be renewed when appearing new information**

5. TYPES OF BUDGETS AND THEIR CHARACTERISTIC

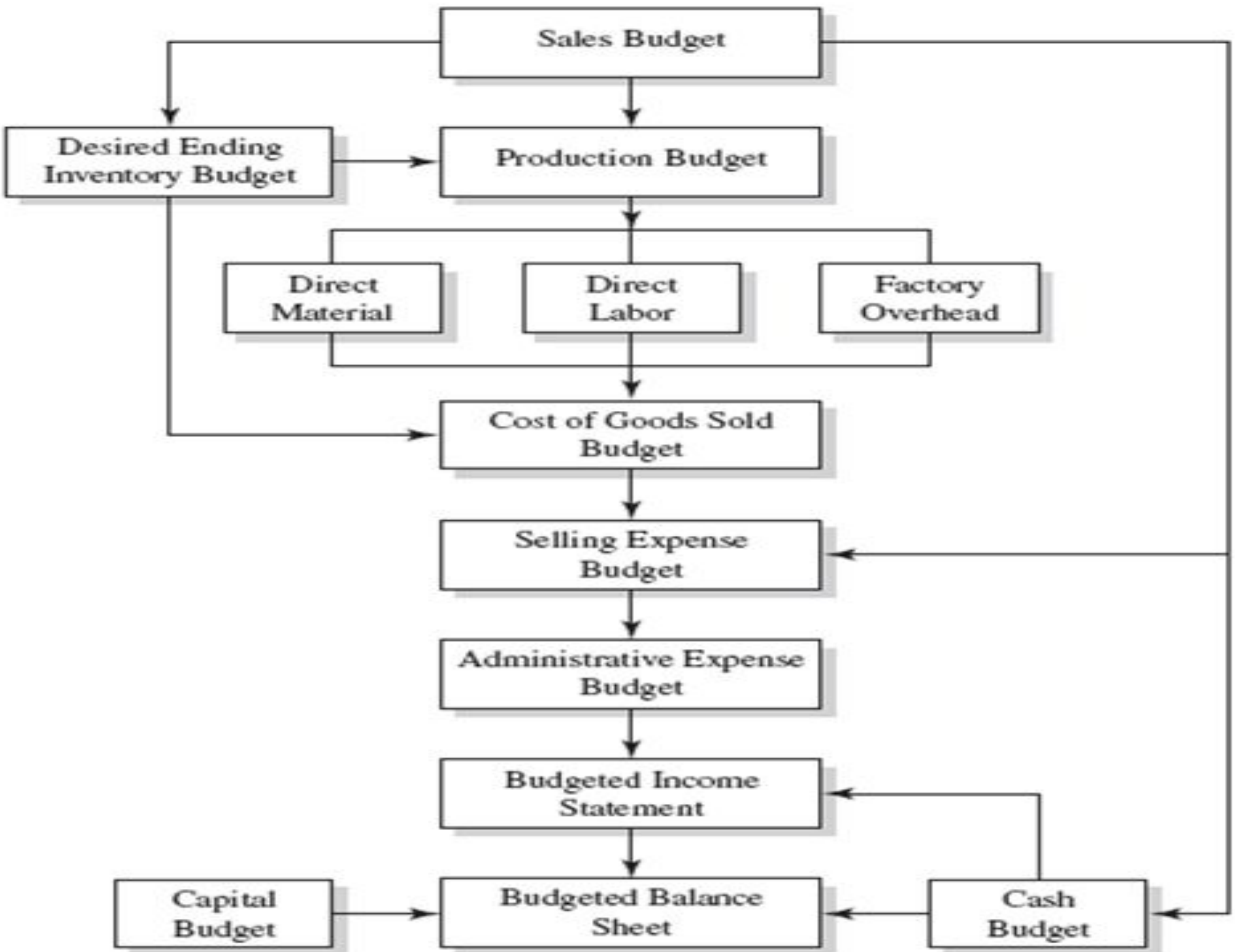
Depending on the purpose it is possible to identify the following types of budgets:

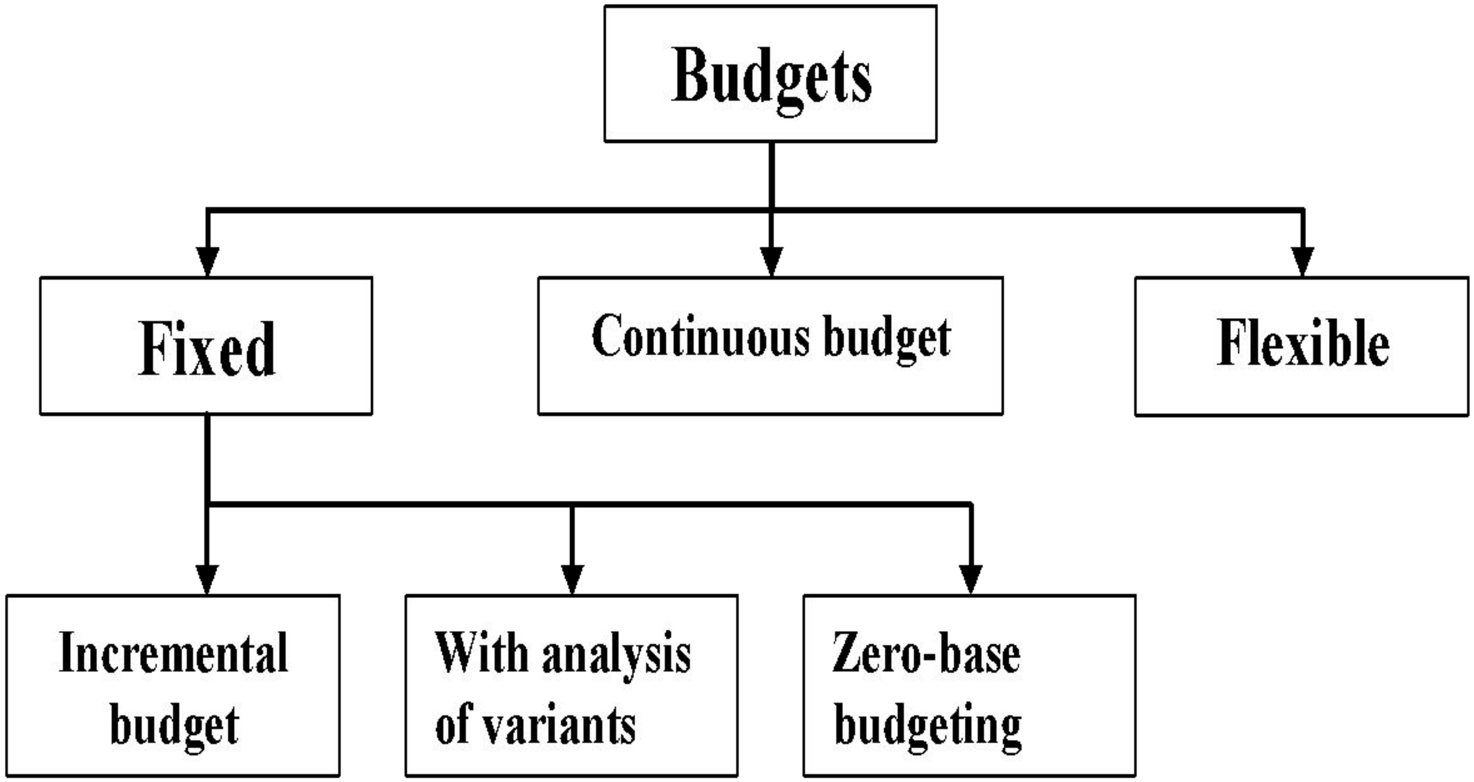
- **Financial budgets**
- **Operating budgets**
- **Responsibility center budgets**

All these budgets are necessary to prepare the master budget



Master Budget





Classification of budgets by the method of development

Fixed (often called a static) *budget* is prepared for a definite period of time without taking into account fluctuation of activity levels. It is aimed at achieving the planned results.

Continuous budget is a budget that rolls ahead each month or period without regard to the fiscal year so that a twelve-month or other periodic forecast is always available.

The flexible budget **is also called a dynamic budget. It is an effective evaluative tool for a company that frequently experiences variations in sales volume that strongly affect the level of production. In these circumstances a company initially constructs a series of budgets for a range of production volumes that it can reasonably and profitably meet.**

Incremental budget **is a budget prepared using a previous period's budget or actual performance as a basis with incremental amounts added for the new budget period**

Zero-base budgeting **is a method of budgeting in which all expenses must be justified for each new period. Zero-based budgeting starts from a "zero base" and every function within an organization is analyzed for its needs and costs. Budgets are then built around what is needed for the upcoming period, regardless of whether the budget is higher or lower than the previous one.**

1. METHODS OF ELABORATION OF BUDGETS

There are three main approaches to organizing the budgeting process:

1. Top down
2. Bottom-Up
3. Bottom-Up/ Top down

Top down budgeting means that the budgeting process is carried out by the company's top management with the minimum involvement of department managers.

The **disadvantage** of this approach is that it allows to take into account strategic objectives of the company, to reduce time and to avoid problems connected with concording and summarizing separate budgets.

The **disadvantage** of this approach is weak motivation of achieving objectives of lower level managers who didn't participate in their developing as well as ignoring information of this management level.

Bottom-up approach assumes that the budgeting process is started by department managers who make their budgets and bear responsibility for their fulfillment, than the budgets are consequently summarized and coordinated at the higher management level.

The advantage of this approach is motivation to achieve objectives of lower level managers, strengthening communication among the company's different departments that results in accuracy and coordination of the planned results.

The disadvantage of this approach is that it requires a lot time to prepare budgets. In addition, if some managers don’t have enough experience and knowledge it is possible to have errors which may reduce the reliability of budgets.

More widely used approach is a **bottom-up/top down** approach, which **mitigates** the disadvantages of both approaches. Using this approach top managers formulates the company's objectives and lower managers prepare budgets aimed at achieving these objectives.

The budget period.

As a general rule, a company adopts budgets covering a period long enough to show the effects of managerial policies, but short enough so as to make estimates with reasonable accuracy. Although planned activities differ in the length of operation, budgets describe only what a company expects to accomplish in the upcoming **12 months, which may be broken down into smaller periods(quarter, month).**