

**OPERATIONAL AND STRATEGIC CONTROLLING TOOLS
IN MICROENTERPRISES – CASE STUDY**

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Abstract:

Globalisation and increasing requirements of the environment cause the executives and supervisors to search for more and more perfect solutions, allowing them to streamline and improve the effectiveness of company operations. One of such tools, used more and more often, is controlling, the role of which has substantially increased in the recent years. It is already implemented not only in large companies with foreign capital, but also in increasingly smaller entities, which begin to notice the positive effects of the implications of the principles and tools of controlling - both operational and strategic. The purpose of the article is to demonstrate the practical side of controlling tools that can be used for the purposes of operations conducted by microenterprises.

Key words: *strategic controlling, operational controlling, microenterprise*

INTRODUCTION

Globalisation, constantly growing competition on the markets, high variability of customers' tastes and their constantly growing requirements cause companies to not only reduce costs, but also introduce various kinds of product and technological innovations. At the same time, they try to improve their competitive position by shaping preferences and needs of customers, by affecting their behaviours. In order to meet the above expectations, companies must apply increasingly varied management tools, intended to improve the efficiency and effectiveness of operations. In order to achieve the intended effects, entities more and more often use controlling tools, the idea of which emerged already in the Middle Ages and was widely popularised in the second half of the 20th century. Controlling is a modern concept of company management, enabling fast responses to changes occurring in the environment and adaptation to the customer requirements.

The purpose of this study is to present selected operational and strategic controlling tools used in microenterprises in the trade sector. It has been shown that controlling tools may be introduced not only in small, medium-sized and large enterprises. The article is a case study. The applied research methods include literature overview, source material analysis and direct interviews conducted with employees of a selected entity.

THE NOTION, OBJECTIVES AND TASKS OF CONTROLLING

Controlling is not uniformly defined in the literature. This results from the broad and multi-layered understanding of this issue, as well as the specific nature of controlling, which has an individual nature and is related to different needs of each organisation and conditions of its functioning. The concept of controlling can be examined in functional, instrumental and institutional terms, and these perspectives are presented in Figure 1.

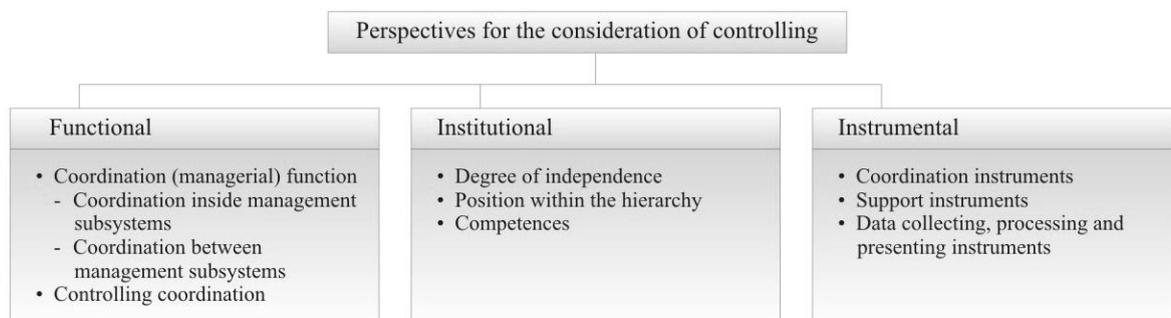


Fig. 1 Perspectives for the consideration of controlling
Source: [14].

The managerial function of controlling is the result of taking over the tasks of managers and emergence of coordination mechanisms. Planning and monitoring coordination plays an important role. Thanks to this coordination, controlling should allow the company to adjust to the changes occurring in the environment and to innovations, examined not only as a response to the environment, but also as a pre-emptive action. The process of institutionalisation of controlling arises along with the growth in complexity of tasks within the unit. As a consequence of such events, separate position of a controller is created. The tools used in controlling originate from managerial accounting; they may include indicator systems, budgeting or transfer pricing [14].

Controlling can be understood differently and thus it is defined differently in literature. According to Edward Nowak: "Controlling is a company management system supporting managers in controlling the course of the business processes taking place therein and coordinating various areas of activity from the point of view of the company as a whole to achieve the assumed goals [12]". M. Sierpińska believes that: "Controlling may be treated not only as an integrated system of planning and control, but also as a certain philosophy of operation of an effective and flexible company, skilfully manoeuvring in the dynamic and uncertain environment. Controlling understood in such a way is a tool for selection of the organisation's development strategy, objectives and tasks, coordination and assistance in performance of these tasks, assessment of the success rate of the entity on the market, and growth in its market value [14]." On the other hand, J. Weber believes that: "Controlling means a function inside the management system in such companies, whose executive system (operation) is coordinated through plans. The purpose of controlling is to coordinate all management subsystems. It has the same instruments and mechanisms at its disposal, which are used by the management system. The purpose of controlling is to increase the effectiveness and efficiency of management and strengthen adaptation to the changes taking place inside and outside the company [9, 16]." The author agrees with the definition of controlling proposed by M. Sierpińska.

Due to its characteristics, controlling is an important element of the management system of an organisation and, as its subsystem, it should support the management process described by its functions, namely planning, organising, motivating and monitoring. Therefore, the main purpose of controlling is to support management of the unit during implementation of particular functions, which should lead to improvement in the correctness of economic decisions [1, 11].

The objectives of controlling result from the company's goals, such as development, survival, maximisation of economic and financial results, increase in the market value of the entity. Optimisation of the result and value of the company may be considered to be the basic direction of the focus on controlling. Special functional and forming tasks may be delegated from the main purpose of controlling, namely optimisation of the value and result. The functional tasks include, among others, co-deciding or cooperation during planning and monitoring, keeping an internal costs and results account, creation and provision of information within an internal information system. The forming tasks include deciding or co-deciding on the shape of the systems, behaviour and values of the company. The main goal

of the company's operations is to increase its value and gain profits, however, controlling is not the one responsible for achieving these results, but it is supposed to provide instruments allowing it to supervise and control achievement of these objectives. Therefore, the controlling system is perceived rather as an advisory tool, and its main task consists in interpretation of numbers, definition of economic relations and coordination of the processes of planning, controlling and monitoring of the flow of information within the organisation [15].

STRATEGIC AND OPERATIONAL CONTROLLING

Contemporary companies run their operations in an intensively changing and increasingly more complex environment, therefore, in order to be able to function efficiently and keep up with the changes, they must adjust their management system to the changing market conditions. This requires design and implementation of a controlling system appropriate for a given company, which would be focused not only on the objectives of operational management, but also on achieving the goals improving strategic management [7, 13]. Strategic controlling is a subsystem, where the most important decisions are made, concerning what the entity intends to do and how it intends to achieve it. It is future-oriented, so it interprets the present condition from the point of view of the future. Strategic controlling involves identification of long-term forecasts, examination of opportunities and threats, searching for long-term effects. The scope of the objectives of strategic controlling can be presented as mutual coordination of operations of strategic management subsystems, namely planning, monitoring, and supply of information, as well as the related strategic management [3, 4]. The effectiveness of operational controlling results directly from the assumptions of strategic controlling, and the current activity of the unit supplements the over-arching objectives formulated in the company's strategy. Operational controlling covers short-term planning and budgeting. The prepared strategies approved for implementation determine the current activities at the operational and tactical level. Long-term objectives and strategic actions should be reflected in activities and objectives connected with the short time horizon [5, 6].

Strategic controlling tools are supposed to help in the analysis, planning, measurement, and notification about the results achieved by the company and should enable effective responses and restoration of the desired state. Selection of tools and their adoption for the purposes of controlling depends on the adopted criterion. This criterion may be time, objectives, type of controlling or information needs of people within the unit. The constantly changing environment and the need to adapt thereto result in the catalogue of strategic controlling tools not being a closed catalogue; new tools emerge, which are to better support the controlling department [2, 10]. Operational controlling tools, by definition, serve different purposes - for example, due to their implementation time or due to their application - than strategic controlling tools. Operational controlling tools have a more dynamic form and have a smaller risk associated with the short period of time, which gives a chance for more precise planning, monitoring and adjustment. Their characteristic feature is their utility nature that - expressed in value-oriented or quantitative terms - ensures transparency of the achieved and interpreted results. The most important operational controlling tools are those,

which satisfy the current information needs for the purposes of planning, monitoring and management [4, 17].

Strategic and operational controlling constitute one consistent and internally linked system. They are supposed to help achieve the objectives set for the controlling system treated as a whole. Implementation of particular functions of controlling is to provide efficient and effective operation of the entire controlling system from the point of view of the achievement of the assumed goals [8].

CASE STUDY

The examined company constitutes a part of an international group, which is building its position on the Polish market. It offers a broad selection of specialised, technologically advanced products, which are a response to the customers' needs on the construction market. The process of international development began in the 1990s and has continued to this day. The basic adopted goals are implementation of the needs of local markets and reduction in the costs of logistics to a minimum. The operations of the holding and the related companies include production of con-

struction chemicals for the needs of construction engineering and trade in these products. Controlling in the examined company is intended to pursue the following objectives:

- provision of information concerning planned budgets and the degree of their implementation,
- assessment of profitability of responsibility centres,
- definition of costs and revenues with breakdown into employees,
- assessment of revenues and costs with breakdown into customers.

In order to ensure long-term growth in the company's value, the following strategic controlling tools were implemented, intended to support building of the company's strategy: SWOT analysis, strategic scorecard, and analysis of the product life cycle.

In the examined company, SWOT analysis was conducted, namely analysis of the strengths and weaknesses, as well as opportunities and threats, the results of which are presented in Table 1.

Table 1
SWOT analysis of the examined company

| Strengths | Weaknesses |
|---|---|
| Employment stability | Poor recognition of the brand |
| Safe level of debt and profitability | Lack of own transport |
| High quality and comprehensiveness of products | High production costs in Scandinavian countries |
| High ratings and permits | Small advertising budget |
| High employee qualifications | Different way of thinking of the Poles and the Danes |
| Opportunities | Threats |
| Group of regular customers | Thought of as an expensive brand |
| Customers appreciate the product quality | Changes in the EUR exchange rate |
| Simplification of the procedure of issuing building permits | Strong competition among companies selling construction chemicals |
| Poland is a member of the EU | Tightening of conditions for granting credits |
| Product recipients are given high discounts | No stability in the construction industry |

The above characteristics, selected for the company as the most important, were evaluated by the unit's management and were assigned ranks. Cross tabulations were used for evaluation of the compiled set of opportunities and threats of the environment, as well as strengths and weaknesses of the company; they allowed for specifying the strategic position of the unit and selecting the proper strategy type for the company.

Apart from the SWOT analysis, the examined company created the strategic scorecard, which was supposed to translate the mission and vision of the company and its strategy into specific objectives and indicators. Table 2 presents the strategic scorecard created for the examined company.

The strategic scorecard allowed for specifying the economic objectives of the company, reaching beyond the area of financial objectives. Strategic goals were specified for the areas of finances, customers, internal processes, as well as learning and development. For each objective, indicators of achievement of the strategic goals were proposed, including indicators of the past and factors of future success, namely indicators of the future.

An additional strategic controlling tool used in the examined company was analysis of the product life cycle. The

three best selling products were analysed. The analysis found that each of the examined products was at the growth phase, but each at its different stage. They were approaching the maturity phase to various degrees, which was reflected in the financial results achieved by the business entity. From the strategic point of view, the entity may achieve long-term stabilisation as long as it keeps many products at various stages of their life cycle.

Long-term objectives and strategic actions are reflected in activities and objectives connected with the short time horizon. The effectiveness of operational controlling results directly from the assumptions of strategic controlling, and the current activity of the unit supplements the overarching objectives formulated in the company's strategy. In order to achieve these objectives, the examined company implemented the following operational controlling tools: ABC analysis, budgeting and financial indicators system.

The basic aim of the implementation of the ABC analysis was to support the company's strategy, directions of its development, as well as to help solve current problems. The examined company began the analysis with identification of processes and actions. Four key processes were distinguished, and each of them was assigned relevant actions, a compilation of which is presented in Table 3.

Table 2
Strategic scorecard for the examined company

| | Strategic goals | Strategic indicators Effects of achievement of objectives | Strategic indicators Factors of future success |
|---|--|--|---|
| Financial perspective | Growth in sales level | Sales growth rate | Sales growth as compared to the plan |
| | Reduction in operating costs | Cost level ratio | Costs reduction as compared to the plan |
| | Improvement in debt collection | Receivable turnover ratio | Debt management program |
| Customer perspective | Increase in market shares | Market share | Monitoring of the construction market |
| | Fast and excellent service | Average time of order execution | Customer satisfaction survey |
| | Building of customer loyalty | Number of new customers as compared to regulars | Customer satisfaction survey |
| Internal-business-processes perspective | Branding | Expenditures on advertising | Brand recognition surveys |
| | High product quality | Number of complaints | Assessment of internal quality control systems |
| | Optimisation of order execution time | Order execution time | Order processing study |
| Learning and development perspective | Systematic employee qualification improvement | Employees productivity | Expenditures on trainings as compared to the plan |
| | Ensuring adequate level of employee satisfaction | Employee productivity | Satisfaction survey |
| | Streamlining of information systems | Expenditures on information systems | Access to IT technologies |

Table 3
Processes and actions in the examined company

| Customer acquisition process | Order processing process | Planning and purchasing process | Business management process |
|--|--|---|---|
| Actions: | Actions: | Actions: | Actions: |
| <ul style="list-style-type: none"> – preparation of offer for customers, – conduct of trainings and demonstrations, – meetings with customers, – advising and assistance in configuration of products. | <ul style="list-style-type: none"> – inventory monitoring, – preparation and sending of orders to warehouses and headquarters, – transport organisation, – issuance and sending of documentation, – monitoring of sent shipments. | <ul style="list-style-type: none"> – planning and placing of orders, – transport monitoring, – admission to the warehouse. | <ul style="list-style-type: none"> – receipt of complaints from customers, – planning of marketing actions, – controlling, – business management, – accounting and financial activities. |

The next stage of the ABC analysis involved identification of resources and settlement of costs of resources for activities, the aim of which was to develop a concept of settlement of costs for the previously identified actions. It was important to identify the costs that will be taken into account in the ABC model and the manner, in which they will be assigned to actions. On the basis of the data contained in the accounting books, cost pools were created, which were then attributed to actions according to the selected key, in this case according to the resources cost carrier.

Completion of this stage of works allowed for appointing the costs of all activities performed in the unit, and thus the costs of processes. The three basic processes, namely customer acquisition, order processing, and planning and purchasing, absorb nearly 70 of the costs.

The most expensive elementary actions include meetings with customers, which absorb 18.96% of the costs, transport organisation, which constitutes 17.91% of the costs, and planning of marketing activities, comprising 11.36% of the costs. The next stage of the ABC analysis was assignment of costs of activities to the identified cost objects, namely to customers and products, as well as calculation of the product's unit cost. The above actions allowed for preparing a many-sided income statement for the entire company, which enabled assessment of profitability of particular groups of products and customers.

The next operational controlling tool introduced in the examined company was budgeting. The responsibilities of the controller were taken over by the Managing Director and, at the same time, an information system was created, which enabled creation of statements and reports with the processed information for the purposes of controlling and management.

The company introduced a management system based on responsibility centres. Sales centres were distinguished and assigned to commercial and technical coordinators. On the basis of the planned sales, expressed by value and by quantity for groups of products, the detailed budget of the company was created, taking into account goods and contractors with breakdown into monthly periods.

On the basis of annual budgets, more precise partial budgets were created for particular commercial and technical coordinators. Apart from sales budgets, the company approved plans of costs related directly to actions conducted by the coordinators, namely costs of remunerations, vehicles, phones, etc. The planned monthly budgets were compared with the actual values of revenues and expenses, as well as with the quantitative sales value. On this basis, deviations were calculated, which then underwent an analysis. The results achieved by the responsibility centres are the basis for calculating the bonus, constituting the basis for the motivational system adopted in the unit.

Another operational controlling tool used in the examined company is financial analysis. It is useful when making economic decisions: both operational and strategic. It also allows for monitoring consistency of the actual condition with the planned one. For the purposes of controlling, the examined company analyses liquidity, profitability, cost-effectiveness and utilisation of the capital, by distinguishing indicators essential for the enterprise. A great advantage of using indicator analysis lays in its broad application and in how easy it is to conduct. The indicator values can be compared with the levels from the previous years and with the levels planned for a given year. However, the analysis does not take account of the risk and cash flows constituting the basic elements of the modern theory of finance management.

CONCLUSIONS

Conduct of business activities in the dynamically changing environment motivates companies to search for modern tools intended for improving the efficiency and effectiveness of operation. More and more complicated manufacturing processes, as answers to the growing competition on the markets, require searching for instruments that allow for making decisions reducing the risk. Controlling is treated as an effective tool for development of the company, and its implementation ensures systematic and sustainable improvement in the economic performance.

The examined microenterprise introduced controlling as a tool intended to improve efficiency and effectiveness of management. The conducted empirical study demonstrated the possibility to plan and implement a controlling system even in a very small company. In order to achieve positive effects of the implementation of controlling, it was essential to introduce the whole range of tools, both in the area of strategic controlling, as well as operational controlling.

Studies conducted in Polish companies show that the area of controlling more and more often makes use of the traditional tools in the form of budgets and financial assessment indicators of responsibility centres. However, in the modern economy, data alone are no longer sufficient. Controlling is more and more often treated not as a survival method of the company, but rather as a philosophy of creating innovation.

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