

THE SIGNIFICANCE OF CONTROLLING FOR A COMPANY'S STRATEGIC MANAGEMENT

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SUMMARY

Controlling concepts are considered. Features of the concept of optimising the interests of separate proprietors of a joint-stock company are described. Peculiarities of using cost indices in strategic operation of business are reflected.

Key words: controlling, market value, market value added, economic value added, strategic management, profit, profitability, cash flow/ More and more scientists and practitioners realize that the company management belongs to an independent type of activity. In order to ensure its effective functioning, it is necessary to have corresponding technologies. These issues are reflected in a varying degree in scientific works by S.F. Golov, C. Drury, V.B. Ivashkevich, A.M. Karminskiy, M.I. Krupka, S.N. Petrenko, M.S. Pushkar, O.O. Tereschenko, S.G. Falko, V.M. Fedosov, I.I.Tsigilik, M.G. Chumachenko. This opinion is first of all typical for Russian scientists [1, p.3]. At large progressive companies controlling services are responsible for developing and implementing new managerial technologies or modification of existing ones. At these companies, the controlling mission is to help them get on the way of professional management simultaneously realizing the principle of distinguishing the development and implementation of managerial technologies from the realization of management functions.

Nowadays the majority of specialists understand the subject matter of controlling as a supplier and an interpreter of information for managers as well as a coordinator of the company operative activity. Research works testify that controllers spend more than half of their working time on collecting, processing and preparing information. It is possible to reduce the consumption of time, e.g. by 20%, due to the automation and standardization of accounting as well as the purchase of ready modules and to use it on consulting the staff and developing the interface for the creation of a management accounting system integrated with international standards.

Historically controlling has been developing in the direction of expanding the tasks it solves as well as changing the structure of time consumption to fulfill controlling traditional functions. In the author's opinion [1, p. 8] it is possible to mark out the following controlling concepts: registration; accounting and analytical; intrafirm integrative; coordination and navigation; strategic navigation; optimization

of stakeholders' interests. Registration concept is very close to the accounting concept. Accounting and analytical concept is connected to a great with management accounting. The concept of intrafirm integration had been forming together with the development of integrated automated systems of production planning. Controlling functions and tasks of this period were concentrated mainly on the development of plans and budgets. Coordination and navigation concept was the first to touch key effectiveness indicators (strategic and operative) and their balance that is important for ensuring sustainable and efficient achievement of the objective. Thus, according to this concept controlling is a navigation system for a company's manager. Balanced scorecard (BSC) is one of the main tools of such navigation. The concept became popular in industrially developed countries.

At present, the concept of strategic navigation is at the stage of its formation. It emphasizes the necessity for controlling to pay more attention to strategic management, since the fundamentals of a company's future efficiency are laid at the strategic level. Thus, a controller becomes a manager's consultant or an assistant while forming strategic plans as well as solving tasks of strategic accounting, control and analysis. This concept requires definite working time which may be found as it was earlier mentioned thanks to automation of works and operations at the operative level. In this case controllers will be able to concentrate their attention on setting and solving tasks of information and analytical support of strategic management. In other words, controlling should create tools for the numeric measurement of strategic intentions and potentials.

The concept of optimizing stakeholders' interests is surviving the formation period. Its main point is that under modern conditions companies cannot set an objective task in the form of optimization of financial and economic parameters only for a company itself. Also it is not sufficient to set the task of profit maximization, profitability, cash flow, etc. The matter is that it is necessary to take into account interests of a rather broad circle of stakeholders: state, owners, shareholders, own employees, social and ecological institutions, local community, etc.

The appearance of this concept is explained by the fact that nowadays there is a process of changing the neoclassic paradigm where the economic system is considered as a set of physical and legal agents acting at the market for private interests, which are mainly understood as profit maximization, to the paradigm of institutional economy. According to this paradigm agents' actions take place at the arena full of a great number of various institutes, which have their own interests, norms and rules of behaviour. Therefore, agents should try to balance their interests with interests of the most influential institutes rather than maximize their profits. Thereupon, according to this concept the controlling service should focus to a great extent on external clients (interested persons) both while setting the task and interpreting the obtained results [1, p. 8-9].

The concept of strategic navigation requires to use forecasted value indicators for characterizing the trajectory of a company's development and identifying the signs of a crisis situation at early stages. It is proposed to use economic value added

(EVA) as one of such indicators (Exhibit 1). This indicator may be identified in two ways. Exhibit 1 demonstrates its identification in such order: at first return on assets (ROA) is identified as the ratio of net income to weighted average cost of capital (WACC); spread is calculated as the difference between return on assets and weighted average cost of capital; then EVA is calculated by multiplying EVA by assets. The characteristic of this indicator is shown in the article [2].

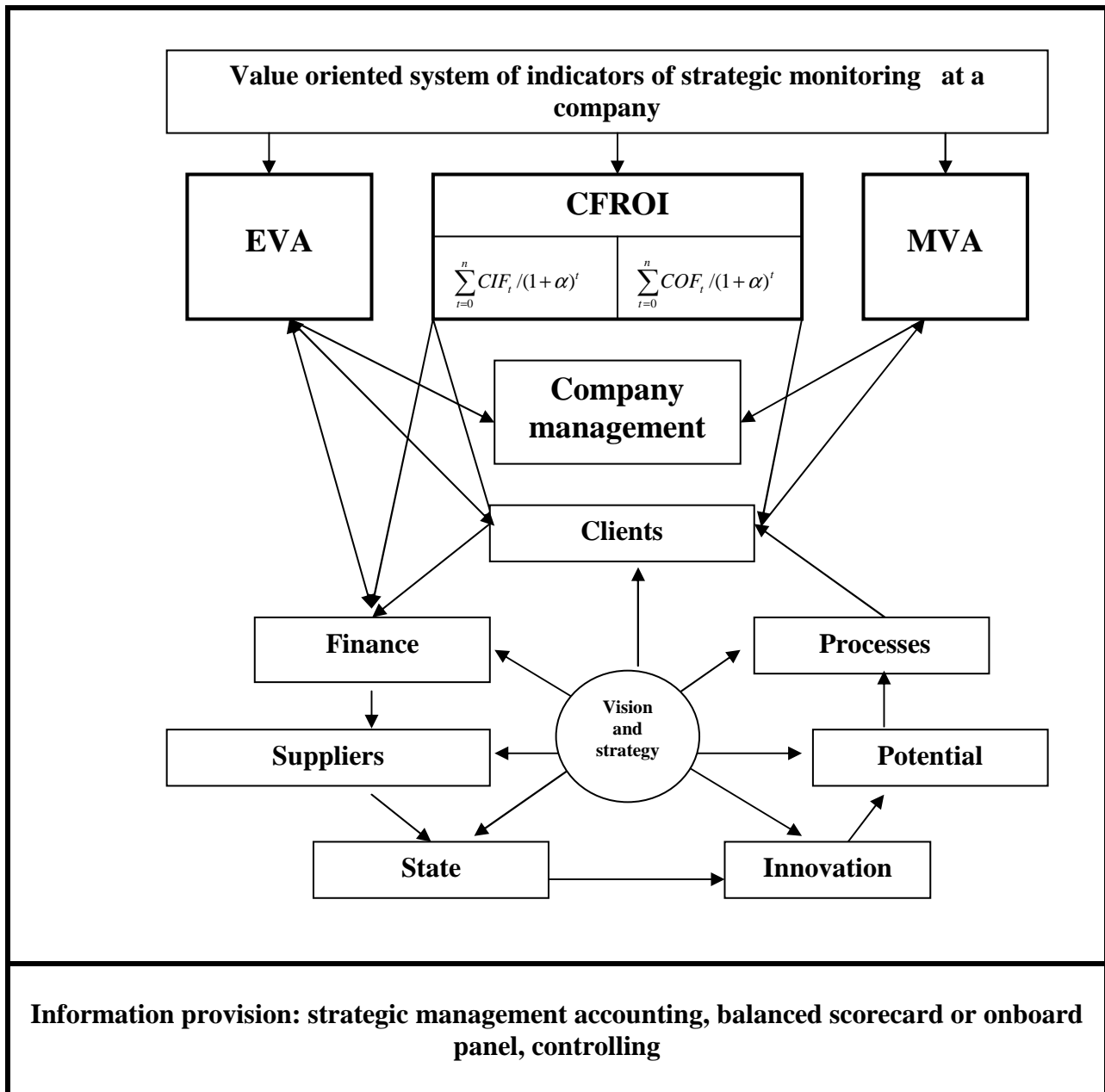


Exhibit 1. Communication of market indicators with indicators of manufacture by means of system of the balanced indicators

To calculate cash flows, it is reasonable to identify cash flow return on investment (CFROI) as the ratio of corrected cash inflows (CIF) at current prices to corrected cash outflows (COF) at current prices. CIF and COF are calculated using known formulas. In case of necessity for evaluating a company's market

value it is also possible to use the indicator of market value added (MVA). The connection of EVA with block parameters of the company development strategy should go through the financial component of the balanced scoreboard which has seven blocks [3,4]. This will facilitate the subordination of different indicators of realizing the strategy to the targeted financial mark. In order to assess the company strategic development, it is necessary to have adequate information. It may be obtained by introducing strategic management accounting at a company [4].

The usage of value indicators such as EVA, CFROI, MVA at practice will allow to focus managerial actions on priority directions of strategic management taking into account the influence of external and internal factors. The forecasting of the intervals of changes of these indicators in the long run may foresee early identification of bifurcational points in the company life cycle. The monitoring of changes of the company value is the necessary condition for finding probable appearance of signs of crisis situations and well-timed taking corresponding managerial decisions.

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