

Model of financial controlling

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Abstract: Financial controlling is the subsystem of the enterprise controlling, which main task is to ensure the liquidity of the company at the simultaneous regard of profitability aims in any moment. The aim of this paper is to analyse the theoretic and practical approaches to the fundamentals, place, roles, and functions and to the contents of the financial controlling. From this analysis of the work of domestic and foreign authors we suggested our own approach to the problem of financial controlling and its schedule of implementation to the small and medium-size wood-processing enterprises. The proposed model is integrated to the subsystem of the operative controlling and puts accent to relations among single subsystems of controlling.

Keywords: controlling, financial controlling, modern tool of management, approaches to the financial controlling, liquidity

INTRODUCTION

In today's business environment most common situation is large complexity of changes that actuate the business environment to pressure and hard competition. Used progressive methods of management make the difference among enterprises and their success in the environment (*Biernacka, 2006*). **Controlling** belongs to those progressive methods. **Controlling is the effective tool of the active management of the enterprise** that joins several regulation and information subsystems (planning, control, budgeting, calculations, financial accounting, cost accounting, a. o.). Its tasks are: fixing of aims, planning, monitoring of pursuance of plan, detection of deflexion, analyse of deflections and suggestion of corrections.

Relatively independent part of enterprise controlling is the **financial controlling**, which main aim is to assure **liquidity** in the company in each moment with respecting the target of **profitability**. The function of financial controlling depends on quality of using controlling instruments, on consistency of planing and control systems and, finally, on the quality of management information systems of the company. The aim of this paper is **the analysis of theoretical and practical approaches to the fundamentals and place of the financial controlling in the structure of enterprise controlling, as to the contents of financial controlling, with the sequential proposal of the own approach to the given problem.**

1. FUNCTIONS AND TASKS OF FINANCIAL CONTROLLING

The main task of financial controlling is **the regulation of financial resources**, which are necessary for covering of payments that arise in the corporate transformation process (*Foltínová, 2009*).

Functions of financial controlling are possible to see in following scopes as it describes the figure 1.

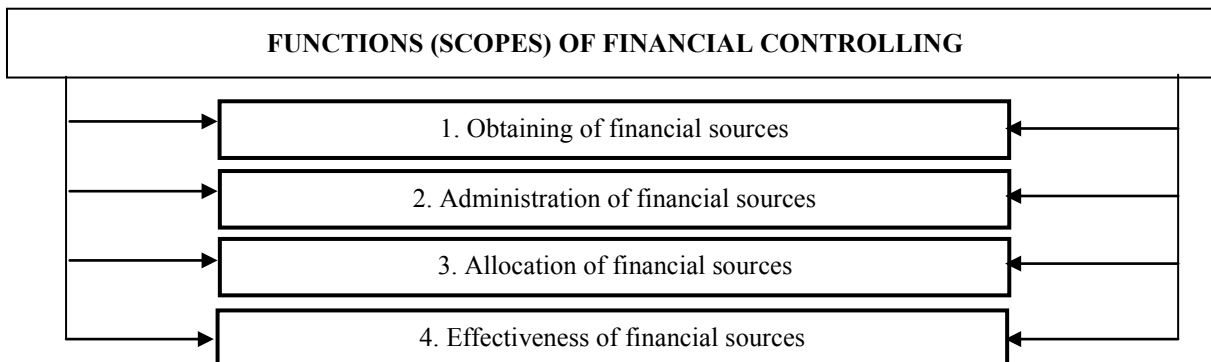


Figure 1 Functions of financial controlling

Through the interface of the single scopes of financial controlling with the primary phases of management, we obtain twelve files of activities that represent the global view on the structure of tasks of the financial controlling (Figure 2).

FUNCTION OF FINANCIAL CONTROLLING	PHASES OF MANAGEMENT		
	Planning	Realisation	Control
Obtaining of financial sources	x	x	x
Administration of financial sources	x	x	x
Allocation of financial sources	x	x	x
Effective utilisation of financial sources	x	x	x

Figure 2 Structure of tasks of financial controlling

2 APPROACHES TO THE PLACE OF FINANCIAL CONTROLLING IN THE STRUCTURE OF ENTERPRISE CONTROLLING

In today's theory several approaches occur that define the place of the financial controlling in the structure of enterprise controlling. However, all approaches have one thing in common – each of them improves the financial process of the enterprise and especially enables to exploit the financial sources in the most optimal way.

According to *Horváthová and Gallo (2003)*, it is possible to divide the system of the enterprise controlling into 2 subsystems: **profit and financial controlling** (Figure 3).

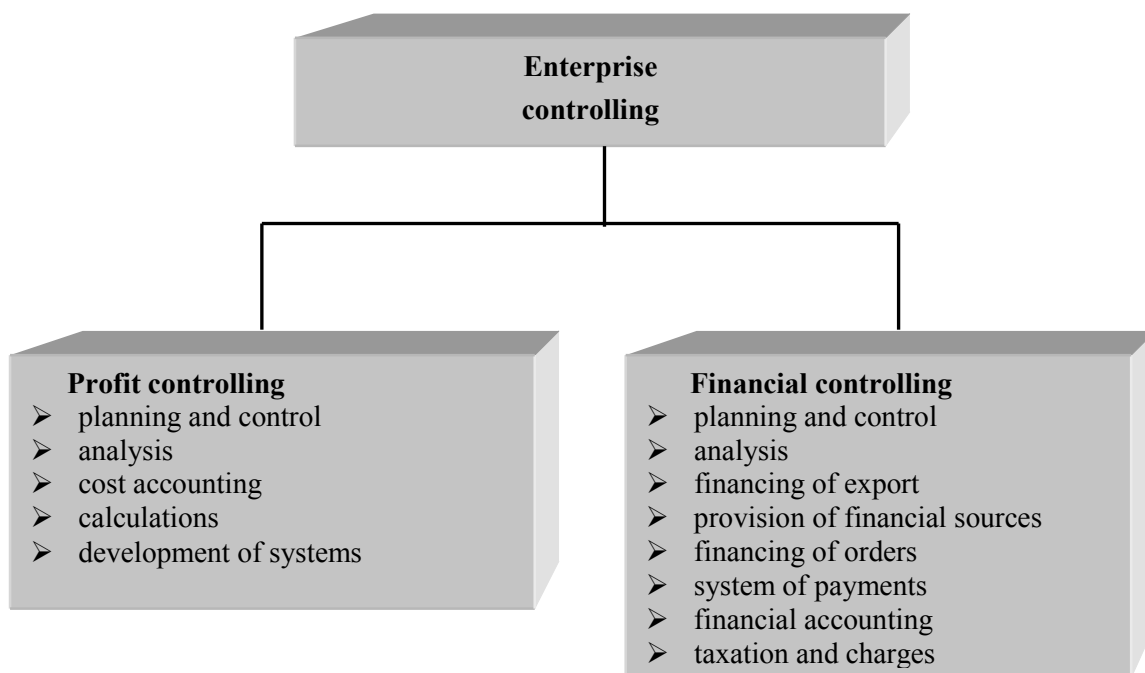


Figure 3 Structure of enterprise controlling (Source: Gallo, Horváthová, 2003)

The second approach to this problem made by other authors (Foltínová, Kalafutová, 1997, Freiberg, 1996, Šatanová, 2000, Rajnoha, 2002) is shown on figure 4.

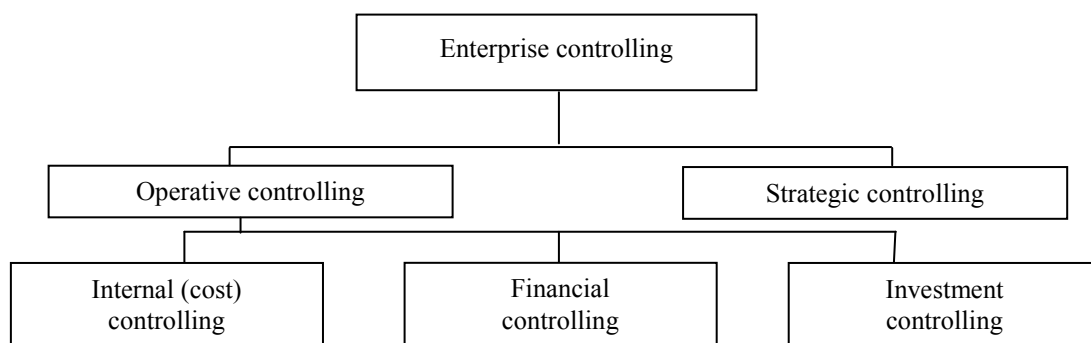


Figure 4 Structure of enterprise controlling (Source: Foltínová, Kalafutová, 1998)

Strategic controlling is typically orientated to the future. The orientation of strategic controlling is mainly external but we can observe necessary views to the internal surroundings of the enterprise, too.

Operative controlling is oriented to the present and to the short-time future. It is possible to divide the operative controlling into three subsystems: *internal (cost) controlling*, *financial controlling* and *investment controlling*.

Internal (cost) controlling is oriented to management of cost, revenues and profit. It deals mainly with the economic regulation (value), which fundamentally consists of the calculation and cost system.

Financial controlling we can understand as regulation of financial flows especially outwards of the enterprise.

Investment controlling is oriented to discovering and to appraisal of investment alternatives, to planning of capital expenditures, to designing of projects economic effectiveness valuation methods and projects realisation.

It is necessary to make a point that strategic and operative controlling is not possible to apart one from the other because they both generate one together interconnected system, and they are in the mutual interaction and they complement one another.

The next approach to the place of financial controlling is shown in the figure 5 (Drábek, 2003), which uprises from approaches of authors (Freiberg, 1996, Foltínová, Kalafutová, 1998, Šatanová, 2001, Rajnoha, 2002) but this approach more accentuates on existing mutual relations between strategic and operative controlling, what can be considered as a contribution in comparison with the former approach.

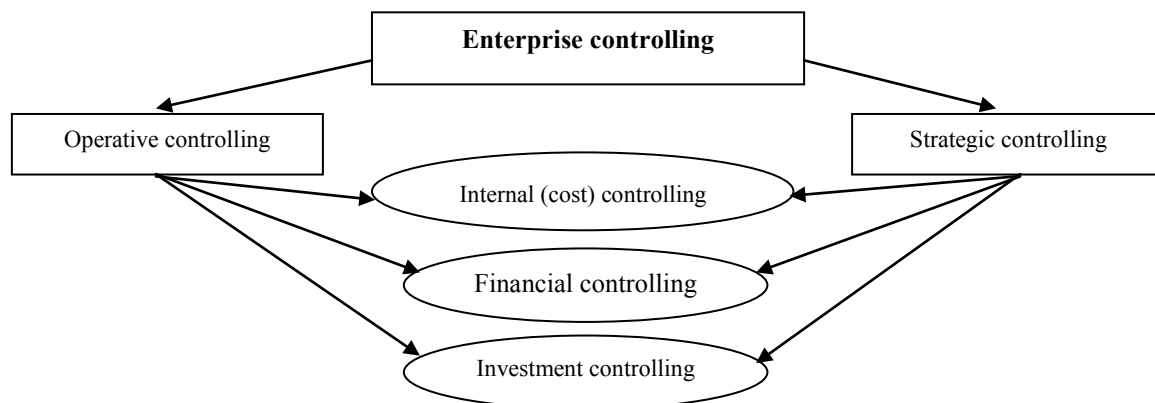


Figure 5 Structure of enterprise controlling (Source: Drábek, 2003)

Completely different approach in comparison with the other authors was made by Eschenbach, (2000), who defines **the place of the financial controlling as a part of enterprise operative planning**. Author does not divide controlling to financial, investment and internal (cost) within the operative planning but in spite of that it is possible implicitly to specify the inscribed subsystems of operative controlling.

3 APPROACHES TO THE CONTENTS OF FINANCIAL CONTROLLING

We can find several approaches and opinions on the contents of financial controlling in the theory and praxis, namely that it doesn't exist as a strict limit among tasks of financial management and tasks of financial controlling.

According to some authors (Freiberg, 1996, Lauko, 2000, Volčko, 2005) it is possible to define financial controlling from the side of practical realisation of the following scopes (Figure 6):

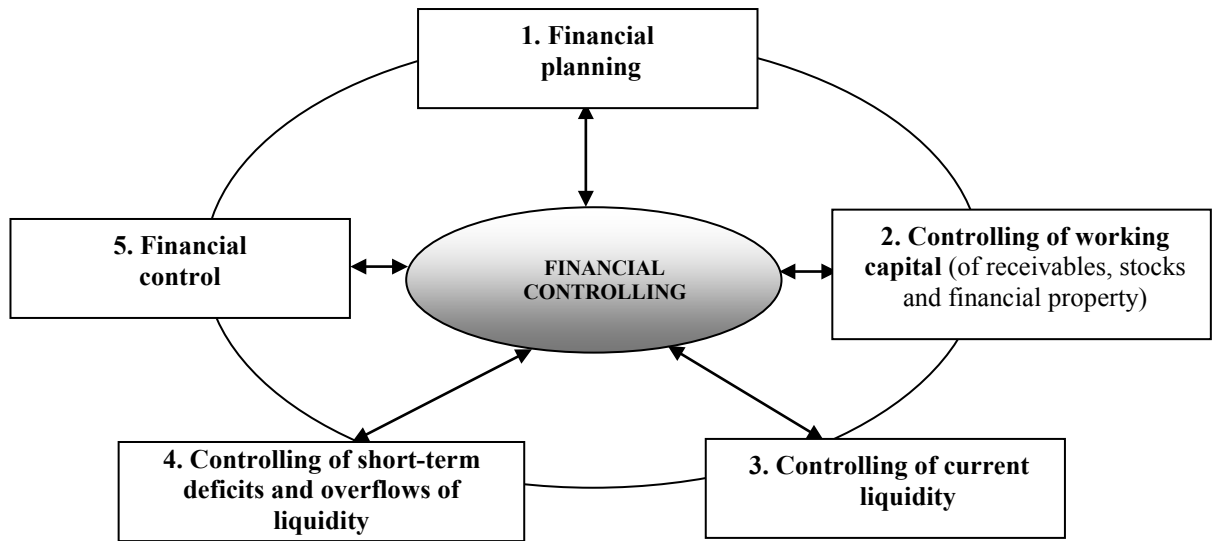


Figure 6 Contents of financial controlling

According to *Foltínová, (2009)* the financial controlling is delimited on the following activities:

- *controlling of working capital,*
- *controlling of current liquidity,*
- *controlling of short-term deficits and overflows of liquidity.*

According to other authors (*Horváthova, Gallo, 2003*) the contents of the financial controlling is as follows:

1. *Estimation of the financial policy and business aims.*
2. *Controlling of working-capital:*
 - management of receivables,
 - management of stocks,
 - management of working capital through controlling of current liquidity.
3. *Indicators and systems of indicators– tools of management:*
 - Financial-economics analyses.

Other author (*Eschenbach, 2000*) think that it is possible implicitly to deduce the contents of the financial controlling as we can see in the table 1.

Table 1 Tools of financial controlling

Tools of financial controlling	
Planning of property and capital level	Planned balance sheet
Planning of profit	Planned profit and loss account
Management of liquidity	Financial plan
Analysis of provenance sources and theirs exploitation	Planned cash flow
Financial-economic analysis	Enumeration of indicators

Authors who dealt with the problem of corporate finance on the time line of 20'th century (*Vlachynský, Zalai, Brealey, and others*) consider financial-economic analysis, financial planning, financial control, management of working capital and the other activities of financial controlling as the activities that fall within the financial management cognisance. However this approach we can consider **to be out-modern** because the task of financial management is to make decisions on the base of information prepared and provided by the department of financial controlling.

4. SUGGESTED MODEL OF FINANCIAL CONTROLLING

After the carried analysis of the particular approaches that define the place of the financial controlling in the structure of enterprise controlling we suggest the following, own approach, which is presented in the figure 7. It comes out mainly from approaches of different authors (*Foltínová, Kalafutová, 1997, Freiberg, 1996, Šatanová, 2000, Rajnoha, 2002, Drábek, 2003*) by its creation, that we considered being the most complex and the tersest. The proposed change it is possible to monitor in the insertion of strategic and operative controlling and in the mutual connection of individual subsystems of operative controlling (*Sedliáčiková, 2012*).

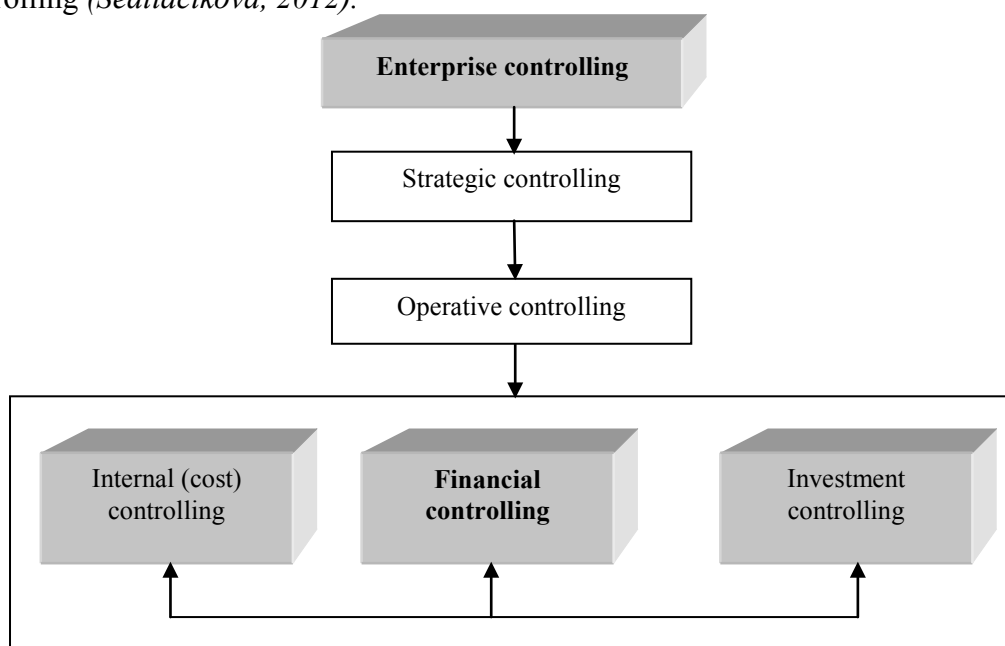


Figure 7 Place of financial controlling in the structure of enterprise controlling

It results with substantive difference from analysis of the particular authors approaches to the contents of the financial controlling. **The suggested approach** to the contents of the financial controlling **comes out from authors Freiberg, Volčko, Lauko a Drábek** and it is **supplemented the financial analysis**. The financial analysis is a part of the financial-economic analysis from the approach of authors *Gallo, Horváthová, (2003)*. We suppose that the financial analysis disposes of all elements that we require from the controlling's oriented conception of the enterprise management (*Sedliáčiková, 2012*). The following figure represents the suggested approach to the contents of the financial controlling.

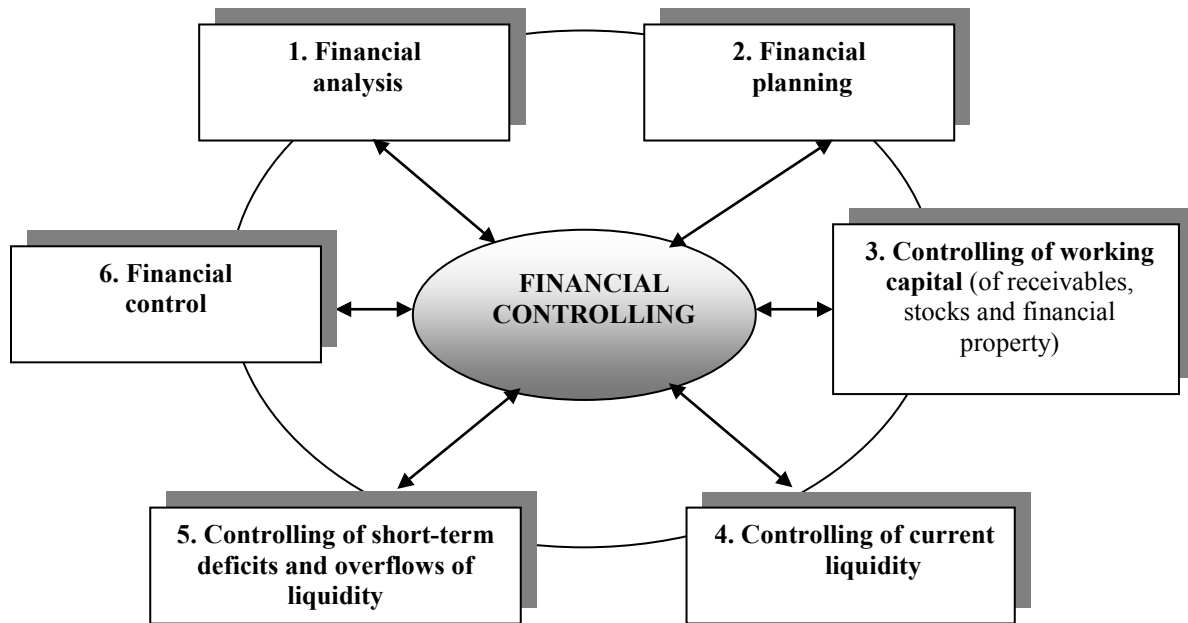


Figure 8 Contents of financial controlling

Implementation of financial controlling to the enterprise is a difficult and lengthy process that cannot be realized within a few days. Management may not want to date of the establishment of new departments were clear the results of the proposed changes, too. Therefore, it is necessary to propose a schedule of step for implementation of financial controlling. We have proposed a standardized model of financial controlling implementation, which is useable with the partial modifications (depend on enterprise specifics) in any small and medium wood-processing enterprise. Modifications of proposed model within enterprises depend mainly on financial possibilities of the enterprise, on labor supply and on many other businesses specifics. The following figure presents the proposed model of financial controlling implementation to the small and medium-size wood-working enterprises.

I. PHASE		II. PHASE		III. PHASE	
PRE-IMPLEMENTATION PHASE		IMPLEMENTATION PHASE		PHASE OF TUNNING AND USE	
Definition of tasks and activities financial controlling (FC).				COMMON ACTIVITY OF FINANCIAL CONTROLLING (FC) DEPARTMENT	
Creation of FC department.					
Selection of employees for FC (from internal employees of the company).					
Recruitment and selection of specialists for FC (outside the company).					
Technical background - selection and purchase of software, respectively its own creation with internal staff (cooperation of economic department and department of informatics).					
		Staff training.			
		Implementation of software.			
		Tuning of roles and activities of FC.			
		Definition of responsibilities, competences and responsibilities of FC employees.			
		Probationary period (the fulfilment of casual tasks and activities of FC).			
				Tuning of the system according to the individual business needs.	
				Tuning of cooperation and exchange of information among department of FC and other departments.	
				Creation of the comprehensive system of FC	
				Implementation of the comprehensive controlling's system.	
1.1.20xx	1.3.20xx	1.6.20xx	1.8.20xx	1.11.20xx	31.12.20xx

Figure 9 Proposal of time and factual schedule of financial controlling implementation to the small and medium-size wood-working enterprises
(Source: Own proposal)

Conclusion

We have already interfered with the problem of the financial controlling in present time more frequently, as in the specialist literature, as in the enterprise praxis, too. We have to say, there are a substantive differences in opinions as to the place of the financial controlling in the structure of enterprise controlling, as to the contents of the financial controlling, as it results from the effected analyses of domestic and foreign authors.

After the carried analysis of the particular approaches, *we have proposed our own approach* to this problem. *The proposed approach* integrates the financial controlling into the subsystem of operative controlling and this approach accentuates more on existing mutual relations among individual subsystems of controlling. By the suggestion of its contents we have endeavoured creation of a complex subsystem, which will be characterized by the logical coherency and the intelligibility of single activities. At the end of this paper we have proposed the standardized model of financial controlling implementation to the small and medium-size wood-working enterprises. The suggested approach and its application in the praxis will create assumptions for effective financial-economic management of enterprises.

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