

UDC 336.761:658.144

## The value based controlling – the innovative way of improvement of the management decisions effectiveness

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The pragmatic aspects of the controlling nature, value based controlling, and the relationship between value based controlling and value based management are considered in the article. It is proved that one of the innovative ways of the improvement of the management decisions effectiveness in corporate finance is the introduction of value based controlling.

**Keywords:** controlling, controlling functions, value based controlling, value based management, management decisions.

Чепка В.В. ВАРТІСНО-ОРІЄНТОВАНИЙ КОНТРОЛІНГ – ІННОВАЦІЙНИЙ НАПРЯМ ПІДВИЩЕННЯ ЕФЕКТИВНОСТІ УПРАВЛІНСЬКИХ РІШЕНЬ

У статті висвітлено прагматичні проблеми дослідження сутності контролінгу, вартісно-орієнтованого контролінгу; взаємозв'язок вартісно-орієнтованого контролінгу та вартісно-орієнтованого управління. Доведено, що одним із інноваційних напрямів підвищення ефективності управлінських рішень у сфері корпоративних фінансів є запровадження вартісно-орієнтованого контролінгу.

**Ключові слова:** контролінг, функції контролінгу, вартісно-орієнтований контролінг, вартісно-орієнтоване управління, управлінські рішення.

Чепкая В.В. ЦЕННОСТНО-ОРИЕНТИРОВАННЫЙ КОНТРОЛЛИНГ – ИННОВАЦИОННОЕ НАПРАВЛЕНИЕ ПОВЫШЕНИЯ ЭФФЕКТИВНОСТИ УПРАВЛЕНЧЕСКИХ РЕШЕНИЙ

В статье отражены прагматичные проблемы исследования сущности контролинга, стоимостно-ориентированного контролинга; взаимосвязь стоимостно-ориентированного контролинга и стоимостно-ориентированного управления. Доказано, что одним из инновационных направлений повышения эффективности управленческих решений в сфере корпоративных финансов есть внедрение стоимостно-ориентированного контролинга.

**Ключевые слова:** контролинг, функции контролинга, стоимостно-ориентированный контролинг, стоимостно-ориентированное управление, управленческие решения.

**The target setting.** The effective management of the enterprise in conditions of strengthening the processes of globalization and competition requires the innovative approaches in financial management. The researches of the corporate finance management of domestic enterprises shows a low level of advanced management methods usage and the availability of a number of obstacles to their implementation. The difficulties are in that, for managerial decision-making it is important to have clear vision about actual situation in the enterprise, to receive current information about achievements and challenges from all departments.

So, for the application of advanced technology for financial and economic activities management it is necessary to create an effective system of information support for management decisions and coordinate individual subsystems of management system. The creation of such

system and the maintenance of its legal capacity belong to the key concepts of controlling [1, p. 9].

**The analysis of last researches.** Recently considerable attention has been paid to value based controlling in the works of scientists and practitioners. Among the authors consider value based controlling it is necessary to determine such foreign and domestic scientists: G. Stewart, S. O'byrne, S. Young, K. Lehn, H. Fletcher, M. Kowalski, R. Palliam, T. Malmi, S. Golov, O. Tereshchenko, D. Lozovytskyy, E. Anankina, A. Karminsky, A. Paskalova A. and others.

**Formulation of the purpose of the article.** The purpose of the article is to generalize the best world practice of building a system of value based controlling and justification on this basis of recommendations for its implementation in the domestic practice of financial management.

The scientists studied a significant part theoretical, methodological and applied aspects of

value based controlling. At the same time, the nature of value based controlling and its impact on the effective managerial decision-making are still little studied.

**Statement of basic materials.** There are different approaches to interpreting the concept of controlling. In particular it is worth noting German and American economic school which in many ways determines the nature, functions and purpose of controlling.

There are such representatives of the German School of Economics as Weber J., Kyupper G., Khan D., Horvath P., Shtaynle K. and others. Under the term "controlling", they basically understand the system of coordination of planning and control or information support for management. In the German-speaking literature devoted to controlling the concept of "management accounting" and "management control" is quite rarely. These terms are used mainly as synonyms for characterizing the process of internal accounting and analysis of income and expenses. The management accounting in accordance with this approach is part of the system of controlling in the enterprise [2, p. 137].

The most influential representatives of the American school of controlling (management accounting) are Anthony R., Drury K., Hilton R., Kaplan R., Hornhrehn Ch. Unlike their German colleagues, they mainly use the concepts of "management accounting" and "management control" in their work. As a synonym for these terms, the concept of "controlling" is sometimes used [3, p. 293].

Young S. defends the position according to which information support for management planning and control is the competence of management accounting. Another approach, formed by Hornhrehn Sch., is that management accounting is an integral part of the management control system [4, p. 433].

Taking into account the achievements of the German and American economic schools, Ukrainian and Russian literature have developed their own approaches to determining the economic nature of the concept of controlling.

Most scientists give a rather narrow definition of controlling, revealing it only on the one hand. Anankina E. [5, p. 12], Mann R., Meyer E. [6, p. 20], Lozovytsky D. [7, p. 107], Pushkar M. [8, p. 12], Sopko V. define controlling as a tool that facilitates the adoption of effective management decisions [9, p. 124], Golov S. [10, p. 62], Karminsky A. [11, p. 12], Folmut H. [12, p. 12] in the definition pay attention to the strategic orientation of controlling.

However, such scientists as Tereshchenko O., Falco S., Khan D. and Horvath P. believe that the task of controlling is to maintain enterprise management through planning, regulation and control with the help of coordinating information support [13, p. 295].

Thus, above mentioned definitions of the concept of "controlling" complement each other and reveal its various facets. The most precise and comprehensive definition gives in his works Tereshchenko O., who under the financial controlling understand system information support of financial and economic decision-making, provides for the usage of methods and procedures for budgeting, strategic planning, management accounting, financial diagnostics, investor relations, risk management and internal control, which together provide coordination of individual management subsystems and are focused on optimizing financial decisions and increasing the company's value [14, p. 77].

The content and purpose of financial controlling is disclosed in its inherent functions, but there is no consensus among scientists on the list of functions that are inherent in the controlling system.

Most authors distinguish the following controlling functions, as information support, planning and control. Some authors additionally distinguish the following controlling functions: observation (Khan R.), budgeting (Horvath P.), rationing (Stefanik I.), monitoring (Anankina A., Danilochkina N.), management (Golovina T.), internal consulting and methodical support (Tereshchenko O.) [13, p. 289].

Tereshchenko O. distinguishes six functions of controlling [1, p. 22]: the coordination function; consulting and methodical function; information function; analytic function; control function; organizational function.

Value Based Controlling, which is part of the financial controlling, considered as a support system of making value based decisions. It should be noted that this value based controlling contributes to successful implementation of value based management in the enterprise.

Value Based Management facilitates the introduction of closed-loop control in the enterprise, aimed at continuous improvement from the point of value creation, which in turn is the basis for setting the enterprise's goals and strategic planning. Accordingly, resources and investments are allocated in such a way as to maximize equity value. Increased cost is the result of value based management, which reflects both, the financial results and invested capital, the cost and risks

associated with business activities. In addition, the growth of the cost of capital – a measure for assessing the effectiveness of management decisions and one of the most important factors that should be taken into account when building a system of motivation. The owners represented by the Council of Directors assesses the activity of managers precisely from the point of value creation and in accordance with this, carry out setting goals in the long term.

Rappaport A. argues that for the successful implementation of value based management, you must adhere to the 4M principles. According to these principles, the basis for creating value is: thinking (ideology), management (decision-making process), measuring the results achieved and motivation (building a compensation system) [15, p. 46].

So, value based controlling is a subsystem of management, coordinates various divisions of the organization with the purpose of achievement of growth of cost of the invested capital.

The starting point for value based controlling is the reorientation of strategic goals in accordance with the concept of value based management – creating value for investors. This focus of the enterprise is not contradict the interests of other stakeholders. Expectations of workers, consumers, suppliers and the public will be met if the company generates value over a long period. Ignoring the expectations of a certain group of stakeholders, in turn, increases the risk of investing in such enterprise, which certainly indicates a loss of value [16, p. 453].

The main task of controlling is to make the enterprise think strategically. G. Stewart is the author of the Economic Value Added (EVA) – concept, which clearly describes the flow of capital between different industries and enterprises. Enterprises compete not only with direct competitors in the general market of goods and services, but also in the capital market – for potential investors. In order to maintain a constant ability to grow in value and get more and more return on investment, the enterprise is in a state of readiness for changes and has tools in its arsenal, the use of which is aimed at predicting and measuring these changes [17, p. 77].

The next step of value based controlling is the transformation of strategic objectives into operational plans. At this stage there is a problem of measurement values at all levels of management. Before the controller raises the problem of finding tools that would allow measure the value created in the context of individual orders, product lines and provide services. Thus, value

based controlling is extended to operational planning at the concluding a commercial contracts, when analyzed the amount of capital that needs to attract. Value based management is changing approach to negotiations at the conclusion of contracts: with the terms of payment, the analysis of the production process and the need for the invested capital necessary for obtaining returns from the invested funds are taken into account [15, p. 48].

Value based controlling requires appropriate management reporting. It is necessary to constantly communicate to managers about how the decisions have changed value. Profit centers and investment in this case transformed into a center for generating value. The classical performance measures also turn into indicators that measure the return on invested capital. The reporting system shows how the methods are transformed into factors and drivers that are directly involved in creating value.

The finalelement in the implementation of value based controlling is the construction of an appropriate compensation system. The controlling is in search of methods that direct the behavior of employees to achieve the enterprise's goals. This factor is decisive, since the introduction of value based management is impossible without linking the wages of employees directly to the created value. Thus, the interests of owners and managers are settled. Hereon control loop is closed. The system of motivating managers opens the way to strategic thinking and the search for methods of increasing value [15, p. 49].

Consider how to combine controlling and management focused on value creation. Both systems are consistent and complementary. The value based controlling is a system approach to management. Owners and managers receive a full set of tools for managing and making decisions. During the development of value based management in the research process were proposed tools that contribute to the creation of value:

1) at the level of setting goals of the enterprise:

- the usage of a balanced system of indicators [18, p. 5];
- the search for qualitative and non-financial indicators that affect for the generation of value (including intellectual capital) [19, p. 9];

2) at the level of setting strategic plans:

- the portfolio management, a value-creation matrix aimed at identifying ways of strategic growth;

- the investment assessment tools, including cash flow discounting and value creation indicators such as EVA [20, p. 210];

3) at the level of establishing operational plans:

- the measurement of value creation at all levels of management;
- the accounting instruments, distribution of invested capital and its value;
- the process approach to value based management [21, p. 847];

4) at the level of results measurement:

- the search for cost indicators, an efficiency evaluation system, that would reflect the economic side of accounting data;

- the search for financial and non-financial value drivers;

- a value based tree of goals [22, p. 246];

5) at the level of motivation:

- the creation of a motivational system, the calculation of bonuses [23 p. 90; 16 p. 453];

- the options in the remuneration system;

- the relationship between reward and the growth of the stock price (the cost of equity) [24, p. 92].

There is a low level of usage of value based management and controlling in the corporate sector of Ukraine. Many domestic enterprises ignore the advanced tools for making management decisions that dominate in developed countries. But there is a clear trend towards obtaining competitive advantages and revenues by non-economic methods. It is about raiding, corruption and other abuses on economic grounds [14 p. 78].

Namely the shortcomings of traditional management methods are a convincing argument for the introduction of value based controlling, aimed at solving the following problems:

- insufficient coordination of actions of management divisions;

- insufficient information richness of the management process;

- maladjustment of managers to read and interpret of accounting data;

- insufficient qualification of managers in the choice of analysis tools, planning, control and regulation;

- imperfect organizational and functional structure that does not respond to the needs of the business;

- ambiguity and lack of a clear understanding of the mechanisms and key value drivers;

- the lack of a unified methodology for management accounting at domestic enterprises.

**Conclusions.** So, the introduction of controlling in general and value based controlling particulars is one of the innovative ways to improve the effectiveness of management decisions in the field of corporate finance. The task of value based controlling is the formulation and support of the ability to value based management. We are talking about the methodological support of the integration of value based indicators in the system of management reporting (Reporting), operational and strategic plans, about a system of motivation and risk assessment. This is due to the need for information support and coordination of the planning system, the synchronization of various types of accounting, analysis of deviations and control, internal and external transparency of management decisions, information and methodological support for management, maintaining a proper level of risk management which, together are focused on increasing the enterprise's value.

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