



# Management Fundamentals PDF

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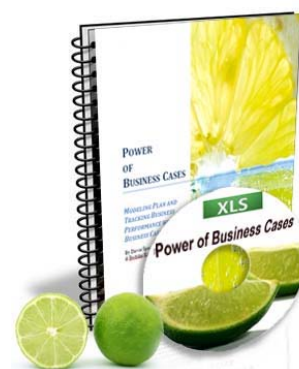
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## **Scope of Management functions and relationship with the controlling**

### **What is management and definition of management scope?**

Management is a term variously defined by different authors. For this reason, below we first present some of its definition to be able to export them from links.

Thus, Donnelly, Gibson and Ivancevich Management define it as, “the process as it is made by one or more persons, and consists in coordinating the activities of other persons in order to achieve the results that one person could not achieve alone.”(1)

Wehrich and Koontz, in addition, define it as, “the process of shaping and maintaining an environment in which individuals, working together in groups, efficiently achieve desired outcomes.”(2)



James A. O'Brien Management function describes as a leadership process that involves managerial functions of planning, organizing, directing, and controlling. In doing so, managers plan organizational activities, organize the staff and activities, direct and control their own management activities by using feedback loops. Feedback has a duty to point out the discrepancies and to direct towards the implementation of necessary modifications in order to achieve business goals (3). Also the definition of management can be quoted with definition in the lexicon of Economics, where was stated "activity aimed at achieving specific, pre-set goals, but with the efforts of other people. Management is the process of guiding the behavior of others toward the execution of a task. It combines the factors of production to achieve certain goals and deals with "overcoming complexity". Basic functions of management scope are: planning, organizing, setting up staff, leadership, and control."(4)

Looking at these definitions as the basic scope of management functions (and others not listed here), it can be noticed that all emphasize that the scope of management is a process in which individuals are joining forces with the aim of achieving a more efficient target. This goal can be expressed quantitatively (profit contribution of cover, income) and qualitatively (environmentally friendly production, high product quality, employee care, good post-sales service of products). In general, these goals are overlapping, so a high-quality product delivers a positive image of a business entity, and that indirectly brings higher profits due to higher sales. To accomplish the desired goals, that persons (hereinafter to be called managers) are responsible for managing and performing certain functions, as already stated in the definition of the lexicon of Economics.

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(1) Donnelly, Gibson, Ivancevich: Fundamentals of Management; BPI Iorwing, Boston, USA, Seventh Edition, 1990, page. 7. Quote from Avelini Holjevac I.: Kontroling upravljanje poslovnim rezultatom; Hotelijerski fakultet Opatija, 1998. page.1.

(2) Weirich H. i Koontz H.: Management; 10th edition, Publisher MATE Zagreb, 1994, page.4

(3) O'Brien James.A.:Management information system, a managerial end user perspective; 2nd edition, Richard D Irwing, INC, 1993. page.338.

(4) Baletić, Z.: Ekonomski leksikon; Leksikografski zavod Miroslav Krleža Zagreb i Masmedia, Zagreb, 1995., page. 511.

## List of Management functions

Briefly, there are five core functions that constitute Scope of Management functions: Planning, Organizing, Staffing, Leadership and Controlling.





determines the ranges of management, type of organizational structure, authority in the organization, types and ways of delegating and developing lines of communication. The organization and its subsystems are placed under the plan, which was created as part of the functions, i.e. planning. In performing construction and organization, in particular, one must pay attention to formal and informal lines of communication because if these lines are not adequately monitored, the possibility of collision between them will result in delays and / or even failure to achieve the goal.

### 3. Staffing

Staffing, as the next function of management, consists of a selection of appropriate staff for the organization to reach a goal / goals easier and more efficient. According to today's experience is well known that it is difficult to financially evaluate, quality and efficient staff. Staff is one of the more valuable, if not the most valuable resource in any successful organization. For this reason, good planning of personnel policies, as a function of management, and corresponding execution of that selection of high quality people is becoming increasingly important. The task of this management function is to set rules related to employment and personnel policies. Within rules following items are determined:

- policy of employment (whether the target organization's development of own staff to develop within the organization or the staff mostly taken from other organizations),
- required expertise and theoretical knowledge to perform certain tasks (identification of necessary skills),
- the policy of promotion ,
- assessment of employees,
- training of staff,
- conflict resolution,
- and other settings of personnel policies.

### 4. Leadership

Leadership as the penultimate function is the cornerstone of management. As part of this function methods are determined of encouraging people (staff) to achieve their common goal / s of a business entity. Entity (unit, division, department and etc.) on its head must have the person who is ready to lead and to transfer to assistants and colleagues own enthusiasm for the goal / goals. Briefly, this means to motivate them.

Otherwise there is a great opportunity and incentive to report a jump ball in the final achievement of results which lead to a miscarriage of goals. There are many motivation theories,



among them Maslow's famous hierarchy of needs and the Herzberg Two-Factor Theory. All of them aim to try to explain a way of encouraging staff to perform tasks more efficiently, and to find factors that will give personnel satisfaction, to motivate them. To perform this function, managers are often additionally educated in the field of psychology because the motivation and motivators are very complex issue. The reason for this is the individuality of each person, and therefore a combination of motivators for everyone else affected.

For example, certain individuals may be motivated by the possibility of promotion (which is closely related to personnel functions), while others may be motivated by a pleasant business environment (organizational function) and / or better bonuses (including organizational function).

For defining leadership also should be stressed that there are different ways (styles) of leadership that are still classified versatile by different authors. So, if we look at the styles of authority there are three basic types: autocratic style of leadership, democratic or participative style and laissez faire.

In the scope of autocratic style, superior is responsible for giving instructions to subordinates without expectations and needs for feedback, ie, the one-sided communication is implemented. As part of that subordinates also do not communicate with each other, but it unfolds through their superiors.

Unlike the previous, Democratic or participative leadership style supports two-way communication superior-subordinate, and subordinate to communicate with each other. However, decisions are made at top management level, although the participation and taking into account the opinion of the lower levels of management.

In Laissez Faire system superior lets his subordinates great freedom in their decision-making and serves as a support, whereby the working communication is completely free within and outside the organization. In this system communication is one of its most important factors. If the leader (manager) is not well trained in communication there is a great opportunity not to "hear" people in close working environment, and for this reason to endanger the achievement of goals.



## 5. Controlling

Control of plans and performance is the last function of management, but by no means the least important. This function has the task of monitoring the achievement of tasks and approaching the goal. The basis on which this function is based on is the business plan (and therefore reiterates that the organization without a successful plan is in a great risk in failing to achieve its goals), and its next task is to monitor the plan and control the proper direction of movement toward a goal – to analyze deviation from that goal.

In case of discrepancies task management must as soon as possible decide to apply corrective actions. As part of this function monitoring is done of all other functions together with deviations from the plan in each of them. However, it should be noted that the plan is just a guideline and that any deviation from it doesn't necessarily mean plan is negative. This is reason why control function exists for analyzing of deviations and investigating of its positive and negative effects. There should be noted that as part of this function are the most important roles for information:

- information must be accurate,
- timely
- and reliable.

Only in this way can be implemented corrective actions.

This function works on the principle of feedback by which the observed variation in a particular function, and based on the analysis indicates the possible need for timely correction.

Overview of the management functions includes also list of prerequisites that should have a specific person to be a successful manager. Thus, a successful manager must be fluent in all the above functions (planning, organizing, staffing, management and control for achieving the set goals) and in all aspects of these functions. However, it should be noted that although all managers involved in the above-mentioned functions, do not deal with them equally in time. The time they spend on each function depends on hierarchical level at which they are located.

With leadership in a larger time scale are involved more managers at lower levels because they have a greater number of subordinate rather than top management. On a contrary, planning function is more present at higher level of management (top management). The reason is the



formulation of strategic plans at higher levels, while lower level management mostly make operational plans that require less time consumption.

Organizing and personnel activities are also functions which are mainly present in higher levels of management because they are the ones who determine the organizational structure that is best suited for achieving the goal. Based on this, lower level only makes operational adjustments to certain organizational structure, which requires less expenditure of time. Also, at lower management levels do not exist wide range of jobs that should be organized as opposed to top management who must create the entire organizational structure and to determine strategies and to adapt the structure to the company's goals.

When talking about control, most of the time for control is spent on those levels of management which plan and organize more. Consequently, on control most of the time spends higher level of administration.

It appears that the managerial job very complex and demanding, and the above function is linked to another function that extends and combines them all together, and it is making decisions.

## Decision Making Management Function

Decision Making function, though not often mentioned, because most of the authors imply it automatically, is the basis of manager job. It is in core Scope of Management. Management is the one who decides:

- which plan and type of organization will be adopted,
- what types of personnel are needed,
- which management system will be used,
- which control methods to achieve results will be used
- and what corrective action will be taken to correct the discrepancies.



To make such decisions management need information from internal and external environment of company.

Here is raised importance of Business Intelligence and Decision Support Systems that provide information from internal and external resources.

Yet the information that managers receive should not be too extensive, otherwise may cause saturation of information that leads to losing the possibility of proper and timely decision-making.

## Controllers and Management

For this reason, management has a need for information related to its function to be filtered by specific departments or processes in a business organization. Another reason, often the case, is that managers are not fully qualified to perform all of the above functions (for example, because they are not adequately trained to monitor economic and financial analysis or actual sales results) and are in need of support in that area.

For the mentioned reasons, seeing own limitations and common encountered problems, managers have decided to introduce their businesses function of Controlling and / or department. The reason is the need for a function that will provide adequate assistance in carrying out their tasks, provide them with timely and accurate information and make coordination and integration of functions within and between them.



When we talk about controlling coordination function then it refers to the consolidation of different actions in an enterprise in order to achieve the goals on same hierarchical level (horizontal consolidation).

Integration is on the other side of the connection, unification, of the different parts into whole, ie the consolidation at different hierarchical levels (vertical consolidation). Integration resolve conflicts that exist between parts and whole.

Thus, through the coordination that follows actions such as purchase of machinery and training of personnel to operate the machine, goal is to raise sell of new types of products. At the same time connection of various departments and functions within a business entity is being made with aim to avoid the mismatch between them. In this way following situation can be avoided: production has a production capacity of 100,000 pieces of products, sales has the plan of sale for 200,000 pieces, produced and sold is only 25,000 because the acquisition has not acquired enough raw materials. Integrative function of controlling is the one who is responsible for ensuring that the purchase of machinery and all related activities to achieve the stated goal of a business entity (determined by the profit or market share). In doing so, controlling has the task of harmonizing the goals of higher level (top management) with goals that are set for each process function or department.

While the manager is responsible for the success of the company (which is achieved by performing their functions), controlling is responsible for transparency of that success. So when manager decides on the specific goals that will be achieved for the company (for example, profit growth of 10%) controlling cares to define steps to achieve this goal and method of monitoring of movement toward that goal. Also, controlling cares about adjustment of the goal to the global vision of the company and that all the functions of management and all departments of companies will be adapted for this purpose.

Affiliation of controlling and management can be seen in the following view where can be see that the controlling is link between the tasks of managers (responsible for the success) and the controller (which is responsible for the transparency of that success).



Source: Osmanagić Bedenik, N. Kontroling abeceda poslovnog uspjeha, Školska knjiga, Zagreb, 1994.godina, page.85. sl.42.

## CONTROLLING AND MANAGEMENT FUNCTIONS

### Introducing Controlling and Management functions

Global research dealing with profitability of controlling applications' own deployment versus buying finished and standardized solutions are very rare and are mostly concentrated on enhancement of table calculators in controlling processes.

Table calculators cannot be adequately used for complete business information of controlling processes mostly due to lack of non-structured data. There are many areas where information with specialized applications could bring significant improvements. The result of many recent mergers and acquisitions on the BI market (IBM and Cognos & Avaya & Aplix, Oracle and Hyperion, and many other specialized software producers for DWH and controlling). Support for controlling by the vendors is stronger than before.

The main goal of this article is to present controlling processes and to suggest application characteristics as an integrative support to the controlling process.

Analysis does not have intention to favor ways to store data (relational, dimensional), platform / database for storage (Oracle, SQL server...) nor deployment concepts, making IS for controlling better or worse (.NET / Java). Ways of characteristics implementation is not the theme for this book. Each company has its own different starting point during cost calculation in buying new,



finished solutions, like the number of already used software licenses, the IT education level of employees, and relationships with vendors of current applications.

## 1. Historical development of controlling

The first elements of controlling can be spotted during the building the Egyptian pyramids where persons in charge were needed for material calculation. Considering size of the venture and, for that time, an enormously big number of workers/slaves, it was necessary that this person existed to coordinate the complete project. Considering project size and the number of years it was necessary to calculate needed number of workers, this person need to periodically check the situation of materials on stock and workers and to compare them with plans. Accordingly, new materials or workers could be added based upon calculation. For named processes, certain elements of controlling as known today were needed.

Much later, during the 15<sup>th</sup> century at an English court, for the first time person a "Controllor" was hired. This person had the task to receive money and certain goods. During the 16th century, for persons who were in charge of similar tasks, the following term was used "Comptroller". The term describes a person dealing with cash flow related to the court. The word etymology comes from the French word *compte* (account). The term comptroller stays in the English court, even creating a working place like "Comptroller General" – the main and responsible person in the Government Accountability Office (GAO), an organization established in 1921, with the goal to insure responsibility of federal government.

The first company who opened a controller working place was "Atchison, Topeka & Santa Fe Railway Systems" in 1880 to take care of the financial business in the company, mostly with bonds, stocks, and other financial derivatives.

Other authors state the first controlling working place was opened in the company General Electric in 1892. After all, it is the first workplace in industry to introduce controlling. During the 1920s, controlling in the USA experiences a significant takeoff. The result was, more and more controlling departments were introduced, and many companies recognized problems in internal communication and coordination.

During the crisis after 1929 in the USA, controllers handled revisions in companies, and many financial aspects, and received a new important task, the planning process. With new tasks controller roles gained more importance.



In 1931 was established the Controllers Institute of America, changed after some time into the Financial Executive Institute (FEI). During that time the Institute published lists of protocols, norms, and publications helping to establish standards in reporting and planning in controlling processes. In 30 years of the last century, a specialized magazine for controllers was founded. In English-speaking countries the term "Controlling" is rare but not the term "Controller". Instead, controlling, like many other terms, is in usage, like cost accounting, management accounting, cost management, but neither of them gathers all controlling functions like the German term "kontroler".

## 2. Regional development of controlling

In different countries the controlling process development did not proceed equally. First it started in the USA as a result of strong industrial development. While in the 1920s controlling development was slow, during the crisis it improved significantly. In 1919, the chemical corporation DuPont starts the oldest-known controlling instrument, so-called DuPont KPI system. The system was a result of the fact that the corporation lost big markets after WWI as a huge munitions manufacturer and due to the fact it had tremendous amounts of financial resources. Since DuPont had to choose quality investments DuPont developed a KPI system that measures quality of investments, to be more precise, Return on Investment (1).

Strong development of controlling known under the term "Controllanship", is a result of global economic crises from one side and industrialization on the other. Later controlling development in the USA contributed to a growing number of international companies that have very diversified portfolios of products and services. The next important fact was, accounting systems became too rigid and too historically burdened in trials to satisfy management's need for information in decision-making processes. The share of fixed costs is growing over time as a result of industrialization and the next higher level of automation of cost accounting systems based upon history. They became more and more inefficient and of poor quality. That's why the need for a different approach for planning cost calculation was needed.

## 3. Controlling in Germany and Europe



In Germany controlling experienced its first major improvement in the first half of the 20th century. Controlling in Germany compared to the USA was not known for a long time, and as a result of strong economic relations after WWII, controlling enters slowly into German companies. The first places where controlling was implemented were American offices in Germany. Through "Controller Magazine" in the '70s and through the Institute "Controller Institute" gathered most of German controllers, formalized their jobs, and exchanged experiences. A similar situation happened in Italy where controlling penetrated through companies connected with the USA.

In the rest of Europe can be mentioned some Switzerland companies, like Nestle introducing for the first time, marketing controlling, then Swissair used controlling in core business like flight service and technique. Later in the '60s in Europe, controlling develops, receives new tasks, and strengthens its position in big companies. In the '60s, controllers' focus in Germany was on division (business units) of business and resulted in the introduction of new instruments. In the '80s focus was primarily on solving and predicting company insolvency.

A different approach from the Anglo-American method was the German concept. Controlling becomes an independent working place. Actually the department clearly separated from accounting. Controlling is equally important as accounting while Anglo-American approach controlling is inside accounting or functions directly under a CFO. In Germany concept controlling penetrates much deeper into company strategy while in Anglo-American countries the approach to controlling is not so active in a leading company.

For illustration, it is good to use a definition from English-speaking territories:

Controller – manager is important for accounting activities. (2)

## 4. Definition of controlling

There are several controlling definitions, and different authors have different opinions and definitions of controlling, but basically the idea is based upon controllers' tasks in a company. Jackson, in a book from 1949, states: "The basic function of controlling is to present data from accounting in shape management and can use it as a basis for decision making" (3).

Currently the main expert in the controlling area, P. Horvath, defines it as, "A management system focused on results and with tasks of coordinating planning, control, and informing" (4). An



unambiguous controlling definition is hard to find in books. Looked at from the perspective of tasks in a controlling department, the term controlling is a common name for a set of tasks controllers in a company do. Although, it should be pointed out, it's necessary to skip literally an understanding of controlling in a company.

Control is one of tasks of the controlling department but not its definition!

In one of the first companies where controlling was developed, General Electric, Ameen P. (one of the directors) for controlling states, "... adamant obligation with value-added elements for customer satisfaction, efficiency, and integrity"(5).

## 5. Need for controlling in company

The need for controlling emerged especially from the need of companies to be more successful. Also stronger needs for controlling emerged in more diversified companies and with goals to measure and compare systems efficiency in different parts of the company. The main goal of controlling is to increase system efficiency of leadership. Controllers operate many different tasks during a working day. Read more about Controlling in Management functions in the articles: Controlling and Management.

## 6. Controller tasks

The tasks of a person in controlling are: planning, managing, and controlling if a company is on the right track to fulfill committed goals. Managing should not be understood in active meaning, but more in advising shape through which controllers indirectly realize managing. A controller role is to alert and suggest, and a manager's role is to act according to suggestion. This concept actively includes both parties and, in process of management, cannot be done alone or independently since they are not sufficient. In the role of controlling, the controller takes management goals and elaborates them into details for departments and shapes them into time-defined tasks.

Latest research also indicates the **active role of controllers positively correlates with company success. (6)**

The daily tasks of controllers are good starting points for evaluation of job automation and proposals for consideration information characteristics in controlling. Automation and information



should start with the most standard, common, repetitive, tangible daily tasks that are easy to be formalized. In this case, it's desirable to analyze the daily tasks of controllers.

The controller holds regular contact with accounting and accounting IS, like ERP, with the goal to refresh data sent to boards and management. The controller in this case regularly refreshes data and compares it with planned figures and makes reports from them. The controller, as already mentioned, converts accounting data into usable daily and monthly reports.

In a certain period of year, the time of operative planning of next-year's controller coordinates work of all persons that contributes to the company plan. The controller is the one to take care to translate management language into many elementary plan details. The controller is a project leader that splits projects into many pieces, dedicating pieces of project and time to other persons with permanent control of the overall project and to be framed as wished by the management.

Besides mentioned tasks, planning and Capex accounting, and development of KPI systems also belong to a controller's daily tasks.

Within management, information should be mentioned and make a difference between regular reporting, consuming most of the controller's time, and so-called adhoc queries mostly concentrated on details and coming from management. Ad hoc reports could also be an analysis of a smaller part of business made once, and it serves to support decisions with several alternatives. Regular reports do not provide enough level of details and therefore help ad hoc reports.

The controller in the rest of the time significantly helps the company with finding deviations, and spotting strange facts and hidden knowledge behind information as a result of specific market trends. A controller adds value to the company. In the research of Professor N. Osamanagić Bedenik are listed the following controller tasks:

Nr.	Task	Percentage (%)
1.	Control of budget implementation and analysis of deviation	87
2.	Reporting	81
3.	Cost calculation and analysis	78
4.	Deviation analysis	68
5.	Budget preparation	65



6.	Coordination in making budget	62
7.	Integration of partial calculations into budget	62
8.	Analysis of deviation sample	60
9.	Advising in decision making process	57
10.	Business information	54
11.	Expletive help in making budget	51
12.	Cooperation in strategic planning	49
13.	Suggesting corrective measures	41
14.	Professional help in investment planning	38
15.	Electronic data processing	30
16.	Suggesting and implementing of preventive measures	24
17.	Information service for strategic planning	22
18.	Implementation of early warning alert	19
19.	Accounting and balancing	19
20.	Tasks of organizing boards	14
21.	Finance	11

Table 1. List of controllers tasks in controlling(7)

Based on listed tasks can be made three categories of tasks, having in mind analysis of Information System, that authors see as processes candidates for informatization and that could definitely make value add into everyday work of system users.



	Regular	Once / irregular
Informing / reporting	Monthly reports	Ad-hoc queries, once made analysis and data preparation for board
Analysis	Comparing planned and actuals	Researching anomalies Searching for causes why anomalies appeared Development of KPI systems
Planning	Coordination of all plan making participants adequately to company planning schedule	Creating systems / models for planning
Advising	Advising characteristics are mental processes and conclusion based upon available information to controller. Broader set of information provide better basis for making decisions. Quality communication channel should be provided during advising and this channel should not be necessarily part of planning subsystem. Can be standard company communication channel. (8)	

(1) Osmanagić Bedenik N. (2004) *Kontrolling, abeceda poslovnog uspjeha*. Zagreb: Školska knjiga

(2) Harvey C. R. (2007) Hypertextual Finance Glossary.  
<http://www.duke.edu/~charvey/Classes/wpg/bfglos.htm> [5.11.2007.]

(3) Controllingportal (2005) Was ist Controlling. <http://www.controllingportal.de/Fachinfo/Grundlagen/Was-ist-Controlling.html> [4.11.2007.]

(4) Horwath P., (2002) *Controlling*, 8. Auflage. Verlag Vahlen

(5) Parker A. R., (1998) *The Company He Keeps*. <http://www.businessfinancemag.com/magazine/archives/article.html?articleID=4322> [5.11.2007.]

(6) Zoni L. i Merchant K. A. (2007) *Controller involvement in management: an empirical study in large Italian corporations*. Journal of Accounting & Organizational Change; Volume: 3., Emerald Group Publishing Limited., pages. 29-43

(7) Osmanagić Bedenik N. (1998), „*Kontrolling, abeceda poslovnog uspjeha*“. Zagreb: Školska knjiga., page. 55.

(8) Meaning, some of collaboration systems like e-mail or similar. In multinational companies on this communication channels should be paid special attention (Žilnik V. (2005) *Building information system for controlling operative requirements* Magister work. Ljubljana: Ekonomski fakultet, page. 31)



And, this is all about solutions...

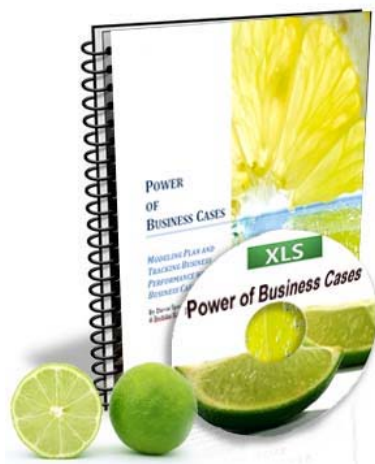


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