

## Urgent Economic Issues of Controlling System Implementation in Kazakhstan Enterprises

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**Abstract:** Functioning of economic entities demand new complex approaches to their management. During last decade increase in interest from big Kazakhstan companies in controlling as optimal system intended to provide success in enterprise management is observed. In the same time a number of factors exist which can influence both in negative and positive way the implementation of controlling system into management practice of Kazakhstan companies.

**Key words:** Controlling system • Economic entities • Enterprise management

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### INTRODUCTION

Development of modern business based on modernized accounting technologies, appearance of alternative accounting systems lead in 90s of the last century to separate area within management accounting : strategic management accounting, which is directly linked to controlling.

Controlling system is intended to manage profitability of an enterprise and it can be considered as a tool used for management of modern businesses integrating such functions as planning, analysis, accounting and controlling. The last one means constant monitoring of deviations of physical values of costs and profit from those values which were planned.

Considering controlling as obviously innovative tool in management system we must mention vague definition of controlling in scientific literature and practice where sometimes controlling is equal to new and revised control.

Side by side with the term “controlling” in English-speaking countries such terms are used as “managerial accounting” or “management accounting” [1].

At post-Soviet territory and in Russia both terms are used-controlling and managerial accounting. But the meaning of the word “controlling” is closer to the essence of this phenomenon and its character, it includes not only accounting functions but the whole range of process management in order to reach final targets of an enterprise [1].

Relations between management accounting and controlling are also contradictory. That is why among experts there is not unified opinion in regard to correlation between controlling and management accounting [2]. In scientific publications there is no clear boundary between controlling and management accounting. This results in many view-points in regard of such relationship. The differentiation of functional areas of these two disciplines is one of the key tasks solution of which will allow to identify independence of controlling.

In a number of cases controlling is viewed as a subsystem of management accounting, in other cases management accounting is regarded as a tool of controlling. In some countries controlling and management accounting are two names of the same discipline. And term controlling is used mainly in European countries (Germany, Austria, Switzerland etc.) while the term management accounting is used in Anglo-Saxon countries-the USA and Great Britain etc.

This determined division of these notions. Now 2 variants of correlation between controlling and management accounting can be identified.

The first variant: these two are quite equal elements of company’s managerial information system where practically all information necessary for management lies. Management accounting collects, process, provide information about economic operations in monetary form and controlling builds and supports the system of indicators which is necessary for management including

tangible and intangible indicators; controlling engages information from management accounting. Side by side with controlling and management accounting there are other subsystems (tax accounting, staff accounting, competitors accounting etc.).

The second variant: controlling is a part of management accounting, if management accounting cover all managerial information-being in fact managerial information system.

Besides that in the context of this article it is necessary to point out to interest paid to controlling in developing countries (with transition economy in different spheres) [3-5]. Analysis has shown that national, regional particularities influence the building of management system. That is why in terms of business development on international scale controlling in some countries has become a key tool which provides informational and advising support in implementation of such functions of management as planning, organization, management and control.

Transition to international standards of accounting, joint companies, study of inner-company accounting systems in other countries triggered spreading of controlling concept in Kazakhstan.

In the same time at many enterprises of Kazakhstan integral system of controlling is not commonly used yet. In terms of practical use only the following elements of it are engaged: information, control, management accounting, professional level of operators.

The specific features of Kazakhstan model of controlling are determined by differentiation of financial, managerial and tax accounting which has already formed in the country. This is followed by much more strict control from state's side in comparison with American or German models where there are no distinct boundaries between kinds of accounting and no regulation by the state [6].

Performed studies have shown that use of controlling technologies in the process of management will significantly increase the efficiency of the results of activity of leading Kazakhstan enterprises [6].

In the same time, while building controlling system Kazakhstan enterprises face both objective and subjective factors, which prevent from achieving success in this process.

**These are:**

- Absence of traditions in organization of transparent management system;

- Little understanding of the role of accounting in the system of enterprise management;
- Directors and employees do not understand the necessity to build controlling system
- Rigid character of organization managerial structures;
- insufficient development of methodological base.

Absence of traditions in organization of transparent enterprise management system in Kazakhstan is of no doubt connected with their immaturity. Besides that specific features must be taken into account which are characteristic of Kazakhstan business.

In this connection structuring of business-processes is still at the stage of development. Besides that wish to go away from traditions of planned economy lead to almost full refusal by the companies at the 1st stage from planning and accounting which must be used in management. And if in financial sphere they understand the necessity of total, unified, system to costs control, industrial companies' top-management is only starting to realize the importance of implementation of controlling into managerial process.

Mentioned above moments do not allow to realize principle of internal transparency necessary for implementation of high-efficiency management accounting systems.

Business owners' wish to "protect" the company from external users, duplicated data bases will complicate building of controlling systems greatly. Besides that effective system of controlling can be built only on the base of formalized organizational structure and management principles. Absence of them will not allow to define precisely the responsibility centers, standardize business-processes and to organize management accounting on the base of costs locations.

This task can be solved also thanks to availability of distinct distribution of responsibility between managers of different levels. This will allow to define "decision-making points" and become an incentive for initiatives from directors on different levels while making decisions on company's operations.

The next factor is non-formed traditions and no experience in application of accounting information not only for making a financial report, but for purposes of management. This is determined by little experience in working with financial reports with company's managers, who believe that accounting is just reports which must be submitted to appropriate bodies.

Table 1: Comparative characteristics of accounting of production costs in Russian Federation and the Republic of Kazakhstan

| Account-plan of financial and economic activity of organizations and Instructions how to use it, approved by the Order of the Ministry of Finance of Russian Federation dated 31.10.2000 # 94n |  | Account-plan approved by the Order of the Ministry of Finance of the Republic of Kazakhstan dated 23.05.2007 # 185 |   |
|--|--|--|---|
| Section 3. Production costs accounts   |  | Section 8. Production accounts   |   |
| 20   | Recurring operations Half-ready  | 8100   | Recurring operations                        |
| 21   | products produced by the company   | 8110   | Recurring operations                        |
| 23   | Auxiliary productions  | 8200   | Half-ready products produced by the company |
| 25   | General production costs   | 8210   | Half-ready products produced by the company |
| 26   | General economic costs   | 8300   | Auxiliary production                        |
| 28   | Defects in production  | 8310   | Auxiliary production                        |
| 29   | Service productions and economic entities  | 8400   | Overhead costs                              |
|  |  | 8410   | Overhead cost                               |
| 30-39  | Accounts are used to account costs by their elements.<br>Methods TBD by organization itself. |  |   |

Regulatory base also does not facilitate management accounting. In particular, law of the Republic of Kazakhstan "About accounting and financial reporting" defines accounting as ordered system of collection, registration and generalization of information on operations and events of organization [7]. In the same time absence of information about objects of accounting in this law, which are defined in law #402-FL "About accounting "[8] reduces informational significance of costs accounting.

Much more opportunities in organization of effective system of management accounting are provided by Plan of accounts in accounting of financial-economic activity which was approved by the Order of Ministry of Finance dated 31.10.2000 # 94 [9]. Variations in approaches to organization of accounting production costs provided in this law allows to account using both traditional Russian practice which suggests grouping of costs in order to calculate the production costs of works and services and principles of management accounting. In the last case accounts 20-29 can be used not only for calculation of production costs but be used for grouping costs by items, locations and other features and accounts 30-39-for accounting costs by the costs' elements: Table 1.

As we can see from the table production accounts provided in accordance with typical Accounting Plan of the Republic of Kazakhstan suggest accounting of costs only in the context of main and auxiliary productions [10]. On the other hand, the necessity to build flexible system of analytical accounting of production costs will require creative approach to development of the systems of

accounting with due regard to specific character of the activity, particularities of manufactured products (served provided, performed works) as well as organizational structure of management.

While implementing controlling system it is necessary to pay attention to psychological factor of attitude towards organization of such system, both from the side of the directors and the staff.

As a rule misunderstanding by top-management is connected with high duration and high costs of project works on implementation of controlling system, often observed gap between expected (overestimated) results of its implementation and real results, especially at the first stages.

Integration of controlling into the system of management usually takes a lot of time. For example, in European countries it takes 2 years (1,5-2,5 in Germany and 2-3 in France). But for developing economy of Kazakhstan these mile-stones are very general because they can be applied only to those enterprises where the level of formalization-both of business-processes and corresponding to them managerial structures-is already rather high and the accounting system is very transparent.

Thus, the fact that implementation of this novation will take a lot of time distracting in the same time rather plentiful resources from the budget can frighten many companies.

Not of least importance for implementing controlling is the support from the directors and owners and this must be support based not only on full trust to the

designers of the system (while usually it is on the contrary), but on informal relations as well. Company's management must be able to correctly prioritize its work and even with huge amount of current work to agree controlling system's elements not formally but taking into account all specific features of company's activity.

However, taking into consideration that implementation of controlling suggests changing of existing management systems and revision of many elements of corporate culture even the directors of the companies manifest negative attitude to it. This is also reinforced by the deviation of expectations from real first results after beginning of use of controlling. While practice demands further improvement of business-processes, increase in labour discipline. Passing a certain break-point in the mind of employees is also necessary: they must understand instructions not as formal list but as tools which increase efficiency of work. Besides that the requirements to the quality of information and operational transferring it to colleagues must be also reinforced.

Finally, even ideal controlling system will not impact the results of company's activity effectively if collected information will not be used in proper way while making managerial decisions.

Very often such side of controlling as increase in transparency of information faces resistance from the side of some managers who fear to loose their significance in the eyes of directors and subordinates, in the same time they are the only persons who possess very important information. This is manifested in the wish to prove the impossibility of planning their activity. That is why managers, expecting difficulties in realization of plans, as a rule, are striving to avoid strict plans.

Undoubtedly, mentioned psychological problems connected with perception of controlling system by the staff of can be successfully overcome but only in that case if side by side with attention to methodology and automatization the human factor will not be ignored. In spite of the fact that in the base of controlling definite methodology and corresponding technical support lie, realization of opportunities of this system can be done only by the staff.

Success of controlling projects depends also on organizational aspects related to the whole organization structure of the company and the order of interaction between managers of different levels. Solution of these problems must be done in the process of controlling system designing yet, by means of:

- Appropriate explanations about the purpose of the system and its appropriateness to the top-management;
- Engagement into process of designing and implementation of the system of its potential users on all management levels;
- Staff training directed to provision of effective operation in the conditions of controlling;
- Improvement of managers' knowledge level in financial sphere, their ability to work with financial reports which must correspond to controlling purposes;
- Formation of controlling philosophy as a part of corporative culture;
- Solution of the psychological problems connected with resistance of the staff to the system.

Currently existing organizational management structure and appropriate information system must be examined at pre-project stage in order to evaluate the extent of perception by it of the controlling system's elements planned for implementation. Depending on the results the opportunity of some re-structuring of company must be considered. In this connection one of the key problems can be reluctance of directors to overcome stereo-type look at the structure of company found by them optimal and elevate onto new level of understanding of managerial needs.

In regard to methodological factors the most negative for controlling system are as follows:

- Denial of the necessity to restructure company and re-engineer business-processes;
- Faulty identification of the responsibility centers linked to costs and profits;
- Choice of non-adequate system of transfer pricing;
- Implementation of motivation models which can ruin processes of controlling implementation;
- Absence of interrelation between operational and strategic planning;
- Excessive financial control performed in rigid forms;
- Non-coordinated methodologies applied in accounting and planning;
- Use of different informational platforms in planning and accounting;
- Duplication of information while entering it into information system of accounting and management accounting;
- Absence of controlling standards in the system of local regulatory acts of the company;

- Ignoring the idea and philosophy of controlling by corporative culture of the company.

Combination of the mentioned above factors must be taken into consideration while developing controlling systems both by the customers and the designers.

In turn, successful solving of these problems will provide a tool of management which can:

- Increase quality and efficiency of managerial processes; reduce time for development and making managerial decisions;
- Establish real control over asserts and manage costs well;
- Increase profitability of own and attracted capital;
- Provide the appropriate level of transparency necessary for increase in investment attractiveness of the company.

These are the tasks which must be solved by leading companies of the Republic of Kazakhstan.

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