Controlling and Management Accounting in Russia

History of Formation, Practice and Training

This paper depicts a brief summary on the history of management accounting in Russia, that covers the time period before the revolution in 1917 and after, up to the beginning of the transition to market economy. It deals with factors, obtained through research, that have shaped management accounting in Russia. The paper briefly describes issues of learning of management accounting and controlling as well as their practical application.

Sergey Falko

1. A brief history of management accounting in Russia

The term “management accounting” in Russia came into use in theory and practice in the early nineties of the last century. However, management accounting in Russian enterprises was relevant long before the 20th century. In the late 19th and early 20th century the process of active industry development in Russia was ongoing. In this context, the attraction of foreign investments was a key element. Hence, foreign engineers, who were regarded as bearers of knowledge in engineering and production management, were acquired to ensure the successful management of Russian companies.

The analysis of books and articles on management accounting, published before 1917, shows that a large range of knowledge in the field was obtained from German specialists (cf. Charnovsky, 1911, p. 279 ff.). For example, the notion and method of Activity Based Costing (ABC), proposed by the German engineer Albert Fink, were already known in Russia at that time.

Besides the classical accounting cost classification by type of resource usage, the division of costs to “constant” and “variable” was already known and applied in practice before the revolution. This allowed the use of methods such as direct-costing and break-even analysis, as they were already known in pre-revolutionary Russia.

The book of Nicolay Charnovsky, a professor from the Imperial Technical School (ITU now BMSTU – Baumann Moscow State Technical University), provides an example of how to calculate the critical boiler release program (cf. Charnovsky, 1911, p. 179). In addition, it covers practical examples from Russian industrial enterprises, carried out by students at the ITU, for calculating the standard hour for different machines. Furthermore, the book provides helpful tools for practically applying the ABC-costing method. In pre-revolutionary Russia the ideas of Taylor were perceived very positively, which is why in practice enterprises used to apply the standard method of accounting, worldwide better known as a standard-costing method.

Thus, the basic ideas and tools of management accounting of this period were not only known but also applied in practice in Russia. At the time the term “cost accounting” was used instead of the term “management accounting”. This account was established directly in the production units of enterprises. The period before the year 1917 is characterized by the application of simple approaches in the system of cost accounting and planning. However, at the end of the 19th century grouping of fixed and variable costs was already introduced into Russian accounting.

A detailed history of the development of management accounting in Russia (cf. Fig. 1) is described in the following works: Annaraud (2007), Sokolov (2015), and Sokolov (1996).

In 1991 the country moved from the administrative to the market principles of market price regulation. At this stage companies gained economic independence which allowed them to create information on costs and revenues for administrative purposes from different angles. The recent cost ac-
counting production system in Russia can be characterized by distinct integration approaches.

Nevertheless, there are a number of difficulties related to the organization of management accounting, the application of several methods of cost accounting being one problem. Russian enterprises are gradually starting to realize the fact that management accounting tools can be very useful to them. Nowadays Russian companies are applying a number of tools within their business structures, such as the concept of cost formation throughout the life cycle stages, target costing, as well as accounting costing in respect to its application on principles of lean manufacturing.

2. Factors affecting the promotion of management accounting in Russia

Only recently the discourse within the management accounting profession has become more inclusive of global topics, raising a discussion regarding the strategic role of management accounting and the need of its transformation to create more value. Therefore, the underlying research question of this study, which was defined based on the specific development in Russia, is the following: “What factors have shaped, and are currently influencing management accounting practices in Russia?” (cf. Lebedev, 2014). Pavel Lebedev, a Russian researcher in the field of management accounting and controlling, studied seven factors affecting the promotion of management accounting in Russia, based on the work of Bhimani (1996) and Shields (1998). These seven influential factors are described in the following:

1. Academic Literature has had an influence on both debate and practice, regarding for example whether full or variable costing should be used.
2. Promotion of management accounting has also been influenced by the education of students and employees who hold a certain view on the topic. This includes the influence of some textbooks and teaching cases on the development and diffusion of management accounting practices.
3. Government intervention and regulation of cost-based pricing and profits, to ensure a desired type and level of competition. This particularly applied when there were supply-demand imbalances in the national economy and during WWI and WWII, in order to ration resources and reduce war profiteering.
4. Professional associations which advocate particular management accounting practices.
5. Consultants who advocate particular management accounting practices and/or help firms design and implement practices.
6. Technology, in particular the computerization of accounting systems which allows more information to be collected, processed and communicated in a cheaper and quicker manner.

To analyze the impact of these factors on the promotion of management accounting, the following sources of information have been used in Russia:
- Consultants’ and educators’ experience in the field of management accounting;
- Content-analysis of professional magazines;
- Web-sites of consulting companies.

In his study, Lebedev (2014) used a scale to assess the degree of influence composed of three levels: insignificant (mild), moderate and significant. This scale reflects the degree of influence each factor has.
had on the development of management accounting in Russia from the beginning until today. The results of the study are briefly described in Fig. 2, which contains the above mentioned factors (column 1), the extent to which each factor initially shaped the concept of management accounting (column 2), and the estimate of current influence of each factor (column 3).

Unfortunately, the Russian professional associations in the field of management accounting and controlling still only have little impact on the promotion and implementation of these management concepts into practice.

Nowadays there are no certification requirements of professionals in the field of management accounting and controlling in Russia, as is common in developed countries. In the United States for example, CMA (Certified Management Accountant) is a widely known American certification system in the field of management accounting. Achieving the CMA demonstrates professional expertise in financial planning, analysis, control, decision support, and professional ethics (cf. Alenizyan, 2016). If public authorities in Russia decide that certification of management accounting professionals is necessary (as is the case in the audit), the influence of professional associations in the promotion of management accounting will be substantially greater.

3. Management accounting and controlling

Since the economic transition in Russia began, many directors and managers of newly created or privatized enterprises of the former USSR started studying the theory and practice of western management methods. Education of managers and professors mainly took place in England, Germany, France and USA. Therefore there were difficulties regarding the use and application of terms in the field of management accounting in Russia. Some experts (from both USA and England) use the term "management accounting", others however (from England and Germany) rather use the term "controlling". Less frequently used terms are for example "contrôle de gestion" (from France) and "il controllo di gestione" (from Italy). These were new terms for the management of domestic enterprises, which were practically similar in content.

In the early 1990s the different terms were categorized hierarchically. Consequently, management accounting was defined as part of book-keeping and controlling as part of management accounting. Therefore controlling can be regarded as part of the administrative account and executes control functions. However the debate on management systems is currently dominated by another understanding of the role of management accounting, where management accounting is a constituent part of controlling. If one compares the contents of the classic textbooks with management accounting and controlling, a number of similarities can be found (cf. Drury, 2002; Falko, 2008; Nikolaeva, 1998; Shebek, 2004; Scheremet, 2002; Upchurch, 2002).

Fig. 3 illustrates that in content management accounting and controlling are very similar. The main

<table>
<thead>
<tr>
<th>Factor (1)</th>
<th>Initially shaped (2)</th>
<th>Currently influence (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academics</td>
<td>insignificant</td>
<td>moderate</td>
</tr>
<tr>
<td>Education</td>
<td>moderate</td>
<td>moderate</td>
</tr>
<tr>
<td>Government intervention and regulation</td>
<td>insignificant</td>
<td>insignificant</td>
</tr>
<tr>
<td>Professional associations</td>
<td>insignificant</td>
<td>insignificant</td>
</tr>
<tr>
<td>Consultants</td>
<td>significant</td>
<td>significant</td>
</tr>
<tr>
<td>Technology</td>
<td>moderate</td>
<td>moderate</td>
</tr>
<tr>
<td>Transfer of practices by academics, education, consultants, and multi-national businesses across national boundaries</td>
<td>insignificant</td>
<td>moderate</td>
</tr>
</tbody>
</table>

Fig. 2: The degree of influence of factors on management accounting promotion in Russia

<table>
<thead>
<tr>
<th>Management accounting</th>
<th>Controlling</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs classification</td>
<td>Cost management (cost element, ABC-costing, target costing, benchmarking, working capital management, standard costs, direct costing etc.)</td>
</tr>
<tr>
<td>Allocation of overhead</td>
<td>Cost center accounting, Product costing</td>
</tr>
<tr>
<td>Cost summary schedule (costing)</td>
<td>CPV analysis focused on decision-making</td>
</tr>
<tr>
<td>Activity Based Costing (ABC-costing)</td>
<td>Methods of management decision-making</td>
</tr>
<tr>
<td>Cost-Volume-Profit (CPV) analysis</td>
<td>Investment analysis focused on decision-making</td>
</tr>
<tr>
<td>Decision models</td>
<td>Forecasting, planning and budgeting</td>
</tr>
<tr>
<td>Investment accounting (evaluation)</td>
<td>Standard costs</td>
</tr>
<tr>
<td>Budgeting</td>
<td>Variance analysis</td>
</tr>
<tr>
<td>Standard costs</td>
<td>Performance measurement</td>
</tr>
<tr>
<td>Variance analysis</td>
<td>Linear programming in management accounting</td>
</tr>
<tr>
<td>Performance measurement</td>
<td>missing</td>
</tr>
<tr>
<td>Linear programming in management accounting</td>
<td>Integrated system of planning, control and information management</td>
</tr>
</tbody>
</table>

Fig. 3: Comparison of the content of classic textbooks on management accounting and controlling
difference is that the controlling is more focused on managerial decision-making. In Russia many companies apply the concept of controlling focused on cost accounting, performance measurement and reporting to management. The advanced concept of controlling, discussed in the works of Horváth (2015) or Weber/Schäffer (2011) is currently still barely used in Russian companies. From this comparison it can be concluded that management accounting and controlling are practically used as synonyms in Russian companies.

So, how did understanding of the essences of controlling evolve in Russian businesses and in the minds of scientists? For some time, controlling was perceived as just a component of book-keeping. During management meetings concerning control system updates, many accountants asserted that they had all the information necessary for their executives, and that controlling was a “fashionable western term” which only littered Russian language.

This limited conception of controlling did not last long, however. In the beginning of the 1990s, controlling in Russia was still identified as an administrative tool, similar to profit and loss accounting. Nonetheless, by the middle of the decade, the majority of the enterprises understood controlling as an essential part in budgeting, operational planning and expenses management. Since the turn of the century, the understanding of controlling as the supplier and interpreter of important information for management and the coordinator of operative activity of the enterprise actually prevails. However, controllers in the majority of Russian enterprises have not become partners of the managers and are certainly not seriously involved in the process of strategic management up to now. Hence, as a first evaluation it can be said that in practice Russian companies currently still not apply controlling as sufficiently as they should. The majority of Russian companies have halted further development, having implemented only registration-analytical functions of controlling. At the same time, accounting, statistical and administrative reporting serve as the sources of all data. Benchmarking is practically not used at all. Coordination and integration functions are realized in very few enterprises and even there, only the operative level of management is affected, not the executive level (cf. Falko, 2010).

Difficult business conditions, the imperfect and constantly changing legislation and a high level of corruption push many corporate executives to implement opaque management measures and avoid transparent business practices. Many seem to quiver at the prospect of the transparency that controlling has the power to bring to a corporation. Hence, the hypothetical expansion of application in Russia in the short-term may only be possible after a change of relations between society, government and businesses, along with improvements in legislation and its execution. If we want to develop higher standards of controlling in our country, we must focus not only on the theoretical knowledge and practical implementation, but more importantly build the basis of a respectful relationship between society, government and the Russian business sector.

4. Education of controlling in Russia

Controlling as a management tool was one of the first disciplines studied in Russia. It was through these studies that controlling came to Russia from the West, specifically from Austria, Germany and Switzerland. In the mid-1990s the books of the German founders of controlling were translated into Russian and quickly advanced in popularity. Therefore, it is not surprising that the majority of Russian enterprises uses the German model of controlling rather than the Anglo-Saxon concept.

The first graduation of controllers in Russia took place in 2000 at the department of “Engineering Business and Management” at Bauman Moscow State Technical University with a small group of 15 students.

Today, the education of Bachelors and Masters in Controlling is carried out in many Russian universities. For example in Moscow, St. Petersburg, Krasnodar and Novosibirsk. The departments are usually referred to as “Management accounting & Finance”, “Planning and Controlling”, “Financial Accounting and Controlling”, “Accounting, analysis and audit”, “Economics and Management” et cetera.

Generally, two main areas of controlling specialist training can be distinguished:

1. Controlling & management accounting (Bachelor)
2. Controlling (Master)

The first area covers the operational controlling training and therefore focuses on tasks which coincide with the management accounting scope of functions. The latter involves strategic controlling training. Fig. 4 compares the basic educational disciplines of the two controlling training programs.

As we can see from the comparative table (cf. Fig. 4) of basic disciplines, controlling training programs for Bachelors are very close to educational programs in the sphere of management accounting. Basic disciplines of Master programs are more focused on the development of competences in the field of information-analytical and methodological support for enterprise managers and functional units. Thus, in Russia the set of disciplines of the Master’s program is radically different from the set of disciplines in education programs of management accounting.
5. Controlling practice in Russia

Originally, the greatest interest in controlling was displayed by commercial banks. At that time, they belonged to the newly emerging sectors of the Russian market economy. In the leading private banks, special divisions quickly emerged, which performed specific controlling functions. These divisions were often known as the “planning and economy department”, “finance and analytics department” or denoted by similar expressions. In these instances, the new, somewhat frightening and vague term “controlling” was not used in everyday language.

After the default on payments in 1998, controlling lost its leading position in banks and even came to a state of stagnation, both in theoretical and practical aspects. Instead, around the turn of the 21st century, Russian industrial enterprises and businesses in the sphere of services and construction, some educational institutions and trading organizations started to take an interest in controlling. It usually arose in such divisions as the economy department, financial analysis and reporting, information and analytics department. Now and then, with very few exceptions, controlling in Russian enterprises is hierarchically overseen by the departments of economy and finance and sometimes by accounting departments. Currently, there are also cases of controlling services emerging in the IT department structure. Fig. 5 shows examples of positioning and structure of controlling departments in Russian companies of various branches and size.

In large enterprises, controlling departments usually report directly to the CEO or to the Deputy General Director for Economics and Finance (CFO). In rare cases controlling reports to the Chief Accountant. In the fourth column we can see that there are functions in SMEs controlling departments, which are very close to management accounting. In a number of large businesses such as nuclear industry enterprises or Russian companies with foreign partners, the controlling functions are clearly separated from the management accounting functions.

<table>
<thead>
<tr>
<th>Company name</th>
<th>Position in the company</th>
<th>Subordination</th>
<th>Structure of controlling department (Division)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise for manufacturing of optics and mechanics (St. Petersburg)</td>
<td>Head of Controlling Department</td>
<td>Deputy CEO - Financial Controller</td>
<td>Analysis of the business units; Reporting; Forecasting; Development of management accounting; Support the M&amp;A decisions</td>
</tr>
<tr>
<td>Nuclear industry enterprises (Glazov, central Russia)</td>
<td>Deputy CEO on controlling</td>
<td>General director (CEO)</td>
<td>System Analysis; IT; Document management</td>
</tr>
<tr>
<td>Insurance Company (Moscow)</td>
<td>Director of Controlling Department</td>
<td>Deputy CEO - Financial Controller</td>
<td>Analysis of the business units; Reporting; Forecasting; Development of management accounting; Support the M&amp;A decisions</td>
</tr>
<tr>
<td>Electric power industry company (Krasnodar, south Russia)</td>
<td>Head of Controlling Department</td>
<td>Deputy CEO - director for Economics and Finance</td>
<td>Cost accounting; Internal reporting; Development of management accounting</td>
</tr>
<tr>
<td>Middle commercial bank (Volgograd, south Russia)</td>
<td>Head of Planning and Analysis Division</td>
<td>Chief Accountant</td>
<td>Income-expenditure analysis; Planning; Reporting (directly CEO)</td>
</tr>
<tr>
<td>Mercantile business “Retail trade sporting equipment” (Moscow)</td>
<td>Head of Controlling Department</td>
<td>CFO</td>
<td>Reporting; Coordination IT &amp; Business - Unity; Management accounting methodology; Special analysis</td>
</tr>
<tr>
<td>Production of consumer goods(SME, Rzev, nord-west Russia)</td>
<td>Head of Economic and planning department</td>
<td>General director (CEO)</td>
<td>Management accounting; Decision-making support by planning; Control &amp; Reporting; IT management</td>
</tr>
<tr>
<td>University (Vladivostok, far east Russia)</td>
<td>Head of economic analysis and strategic planning Department</td>
<td>First vice-rector</td>
<td>Economic analysis; Forecasting; Management accounting; Strategic planning; Reporting</td>
</tr>
</tbody>
</table>

Fig. 4: Comparison of basic disciplines in controlling training programs

Fig. 5: Examples of positioning and structure of the controlling department in the company
Controlling practice in Russia includes not only industrial and commercial enterprises, but also universities, private institutions, and non-profit organizations. In small Russian retail and service enterprises management accounting and controlling are absent because all management problems are solved by the director of the enterprise with the use of a tool such as “organizer” (cf. Häuser, 2016).

6. Conclusion

In Russia the term “management accounting” was first used in theory and practice in the early nineties of the last century. However, in the end of the 20th century the grouping of fixed and variable costs was already applied in Russian accounting. In 1991 the country moved from administrative regulation to market principles of market prices regulation. At this stage companies gained economic independence and could create information on costs and revenues in different angles for administrative purposes. Accounting in Russia is necessary for companies regulated by the Ministry of Finance, which determines the classification of costs and rules of accounting. Management accounting is carried out voluntarily, hence at the request of management, and is not regulated by the state.

In the early 1990s there was the following hierarchy of terms: management accounting is part of the book-keeping and controlling is a part of management accounting. Therefore, controlling is part of the administrative account and executes control functions, currently dominated by another understanding of the role of management accounting in the management system where management accounting is a constituent part of controlling.

In Russia, many companies use the concept of controlling focused on cost accounting, performance measurement and reporting to management. From this comparison it can be concluded that management accounting and controlling are practically synonyms in Russian companies.

The controlling training program for Bachelors is very close to educational programs in the sphere of management accounting. Basic disciplines of Master programs are more focused on the development of the competences in the field of information-analytical and methodological support for enterprise managers and functional units.

Prospects for the development of management accounting in Russia is the further integration of controlling disciplines in favor of operative consulting and providing managers with information on financial and economic problems of business.

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Zusammenfassung


Keywords

# Controlling # Education # Management Accounting # Practice # Russia

Stichwörter

# Ausbildung # Controlling # Management Accounting # Praxis # Russland

Die Textausgabe

enthält in einem Band alle im Wirtschaftsleben relevanten Rechtsvorschriften aus dem Allgemeinen Zivilrecht, Handelsrecht, Wettbewerbsrecht, Gesellschaftsrecht, Insolvenzrecht und dem Kapitalmarktrecht.

Die Neuauflage

enthält insbesondere die Änderungen durch das Gesetz zur Reform des Bauvertragsrechts und zur Änderung der kaufrechtlichen Mängelhaftung sowie das CSR-Richtlinien-Umsetzungsgesetz.

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