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Changes in management function of control

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Abstract

Controlling is a constantly ongoing managerial process of designing standards, measuring performance, comparing the performance with standards, and implementing corrective actions to ensure effective and efficient running of the organization's activities. Controlling represents one of the basic functions in management in Anglo-American understanding. The original term has been changed from control to controlling, as control is (like a plan in planning) only a small part of long-term activity.

The term controlling, however, is also used in German literature, where it represents what Anglo-American literature refers as management (or managerial) accounting. As the Central and Eastern European literature is heavily influenced by German literature, in English-written papers published in Europe confusions often happen.

Based on results of our questionnaire survey in 331 companies operating in Slovakia, which collected data at the turn of 2016 and 2017, we analyze the changes in management function of controlling and compare them with the findings in literature. We analyze the research results according to the different characteristics of the research sample, such as the size of the company by number of employees, the economic result, the respondent's position in the organizational structure of the company, or the respondent's attitude if he/she is an object or subject of control. Taking into account the quantitative and qualitative results obtained, we also present specific changes in the control of our businesses.

Keywords: organizational control, management functions, changes

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I. Introduction

The term “control” is probably one of the worst defined in English language. The reason is it has many meanings. For example Rathe (1960) created a list of 57 different variations of differences, which ranged from prohibiting to manipulating. There are two major themes in these variations; a) control as domination – the person who controls has the power to enforce his will and; b) control as regulation – the person detects a deviation between the plan and the reality and forces this person to act. (Emmanuel et al., 2013) While control is a one-time act, controlling is a constantly ongoing managerial process of designing standards, measuring performance, comparing the performance with standards, and implementing corrective actions to ensure effective and efficient running of the organization's activities.

In the context of this paper, controlling is one of the five sequential functions of management (other are planning, organizing, staffing and leading), which's importance has significantly risen during the last economic crisis. In addition to sequential functions, management theory also distinguishes parallel functions, including analyzing, decision making, and implementing.

During our research in this field, we discovered large differences among theories in the Western and Eastern parts of the world. While Western (capitalist) countries emphasize self-control and informal control, Eastern (post-communist) place largely importance on formal control.

Another important aspect in the area is the use of the term “controlling”. The term is prominently used in both the Anglo-American and German literature. Central and Eastern European theory is in the studied area strongly influenced by the German literature. The term controlling was used by German business economics at first, but in the course of time it came into collision with Anglo-American literature as it began to be used in management theory.

In Slovakia and other Eastern European countries (generally known as Eastern bloc), controlling has also a dark side of its history, thanks to the communistic regime. This can result to negative views from persons who remember controls by the regime. Due to the negative role of controlling in this period, many managers still have a poor perception of this important managerial function.

II. Theoretical background

Any meaningful human activity needs a certain degree of control if it is to achieve what it intended. Frequent verification can ensure that redirecting to the right course prevents the loss of resources and efforts. (Boddy, 2008)

One of the first definitions of managerial function of controlling was written by Fayol in 1949, when he stated: “control of an undertaking consists of seeing that everything is being carried out in accordance with the plan which has been adopted, the orders which have been given, and the principles which have been laid down. Its object is to point out mistakes in order that they may be rectified and prevented from recurring.” Anthony later (1965) defined controlling as the process through which managers ensure that resources are procured and used efficiently and effectively to meet the goals of the organization. Among the Slovak authors, Kracmar et al. (2013) define controlling as a specific, multi-step activity, starting with setting objectives and criteria, identifying the situation and comparing it with the desired status, ending with remedying shortcomings, and providing information for correcting plans and supporting decision makers.

II.1 Management function of controlling

Controlling is a fundamental aspect of an organization that has been largely neglected by scientists for several decades. Despite the fundamental nature of this phenomenon, its importance and some significant progress, this scientific area is still neglected. Specifically, controlling is poorly captured in its constructs, determinants, and effects. (Sitkin et al., 2010) It should be clear that, with its primary characteristics, which are feedback and corrective action, controlling is an essential and integral part of the role of management. Without control, there can be no management. (Eilon, 1971)

Another reason for controlling being the least scientifically researched function is its status as the last step of the management process. Based on the study of numerous domestic and foreign literature, we can say that much more attention is paid to the other sequential functions. From parallel managerial functions, the decision-making function enjoys also more attention. In 1977, for example, Ouchi pointed out that the functions of organizing and control were not enough insufficiently differentiated in theory.

Controlling plays an important role in management of a company; however its role is often hidden from the sight of others. Organizational structure visualizes the scheme of organization. Unfortunately, there is nothing to help us visualize the organization's control system. (Flamholtz, 1996)

Efficiency and effectiveness are very important terms in controlling. Through them managers are trying to achieve their goals. Effectiveness is interested in achieving goals; that means the action is effective to the extent if the intended was achieved. Efficiency is interested in achieving the result with minimal use of resources. (Emmanuel et al., 1990)

II.2 Controlling and “controlling”

Controlling as a term is used both in Anglo-American literature as well as in German literature. Both theories have their spheres of influence. While in the Anglo-American literature, controlling means the management function, in the German literature (and some Eastern European) it acquires the meaning of managerial accounting of Anglo-American literature. It is very likely that in the future, both theories will approach to each other, because: a) the growing Americanization of society will play a big role and; b) English is becoming more common in Central and Eastern Europe.

However, it is very interesting to see how much attention is paid to managerial accounting and how the managerial function of controlling continues to be neglected. We see the reason in simpler applications. Although at first glance the application of different formulas, ratios, or conversions may seem challenging, management accounting is hardly likely to pose controlling when evaluating qualitative indicators. In this respect, it will probably be very difficult to replace controlling in a digitizing world. In addition, managerial accounting does not have decision-making power, but should serve as a help in deciding of a manager who assesses an object complexly by considering qualitative parameters.

The purpose of both managerial accounting and financial accounting is to provide useful information for the decision-maker. They do this by collecting, processing and reporting information for decision-makers. In general, a large portion of managerial accounting involves obtaining cost information for decision-making in planning and control. (Wild and Shaw, 2010)

II.3 Western and Eastern approach to controlling

Although the current management theory may appear globally identical, there are large differences in the controlling function. Major differences we discovered during our research of the managerial function of controlling are listed in table 1.

Table 1. Major differences between the Western and Eastern approach to control

Aspect	Western approach	Eastern approach
Types of control	mainly feedforward, concurrent, and feedback controls	sophisticated typology with the accent on formal control (as shown in Figure 1)
Forms of control	bureaucratic/administrative, clan, and market control	verification, control survey, supervision, inspection, review, audit, operational research
Steps in control process	mainly three to four	five to eight
Meaning of external control	a manager controls an employee	an entity outside the organization controls its operations, results or state
Meaning of internal control	an employee or a manager controls himself or herself	a manager controls an employee
Level of control	strategic, managerial/management, operational	deficiently covered in literature
Object of control	results, actions or personnel	systems that may be target-influenced (social systems and man, technical systems, biological and inanimate systems)
Subject of control	what is being controlled (similarly to object of control in the Eastern approach)	an entity who has organizational or legal power to exercise control over an object of control

Source: own work based on a large number of Western and Eastern literature.

III. Methodology

The presented research results in this paper are coming from a questionnaire survey, which collected data at the turn of 2016 and 2017. Questionnaire's emphasis was on new trends in controlling and attitudes of managers to controlling when they are in the role of the subject and object of control. We received 395 completed questionnaires, of which 376 were further processed for the purposes of attitudes research. Our sample does not represent statistical representativeness for Slovakia but is compatible with its parameters. Since several

respondents from the same company were allowed for the purpose of attitude research, further selection is needed for the purposes of this paper. We chose the highest-ranked manager in the hierarchy for whom we expect the best knowledge of our subject, so subsequently, 331 questionnaires were left for further processing.

Our research sample has the following characteristics (n = 331):

- size of company (employees in 2015): 115 microenterprises, 90 small, 56 medium-large, 70 large companies;
- management level of the respondent: 120 top-management, 52 middle, 116 lower management level, 43 informed employees¹;
- most frequently represented sections according to the SK-NACE classification: 69 industrial production, 66 wholesale and retail trade and repair of motor vehicles and motorcycles, 46 professional scientific and technical activities, 25 information and communication, 21 accommodation and catering services;
- higher territorial unit of Slovakia: 174 Bratislava (capital city and surrounding districts), 33 Trnava, 24 Nitra, 23 Trenčín, 30 Žilina, 17 Banská Bystrica, 22 Prešov, 8 Košice;
- legal form: 222 private limited liability companies, 66 joint-stock companies, 30 self-employed individuals, 5 branches of foreign enterprises, 4 cooperatives, 4 other forms;
- economic result in 2015: 254 profit, 52 loss, 20 balanced economic result, 3 companies founded in 2016, 2 n/a;
- sales in 2015: 164 ≤ 2 M Euro, 43 $2M \leq 10M$ Euro, 60 $10M \leq 50M$ Euro, 50 $\geq 50M$ Euro, 14 n/a.

Besides various other questions, we also asked the respondents whether they noticed in their company changes in controlling over the past year (the period before the questionnaire is completed was meant/not the previous calendar year). We also asked the respondents for a short justification.

All 331 respondents answered this question, 103 did not state a justification. Out of these 103 unclarified answers, only four answered the question positive. An interesting fact was that 75

¹ Although they do not hold a managerial position, “informed employees” represent an important part of our research sample as they have access to rare business information. Included are accounting officers, economists and employees directly responsible for the control function (without being managers).

respondents who replied that their business had no change in controlling justified their response. Based on this data we are able to make a quantitative and qualitative analysis of changes in controlling.

Justifications (in various questions) helped us to resolve questionnaires from inadequately competent respondents. We used standard scientific methods in evaluating and interpreting the results of our questionnaire surveys.

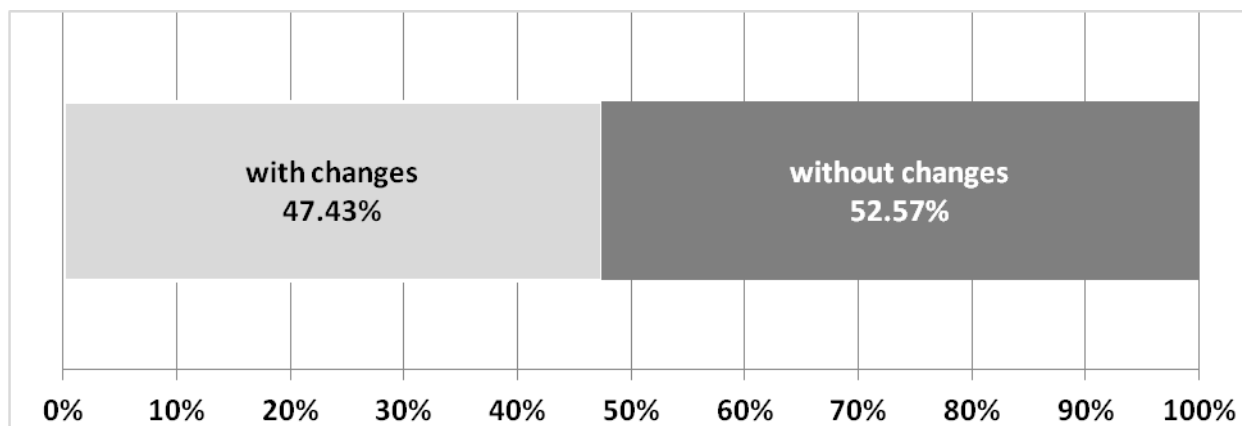
Potential limitations of our research come from the fact that our respondents are at different places in organizational structures of different companies. This may cause them not to notice changes in controlling, which could have been implemented in another part of the organization.

Another limitation may arise from the question itself, as a small change in controlling can be considered negligible for a large business, but in a small business can be perceived as a key one.

IV. Discussion

First, we would like present the overall results for the question. Out of the whole sample 157 respondents stated, in their company was some kind of change in controlling. A negative answer was recorded in 174 companies.

Figure 1 Changes in management function of controlling in Slovak companies (in %)



Source: own work.

These results are interesting for us in light of the fact that the Slovak Republic is currently in the economic phase of expansion and employers are starting to feel a lack of workforce. This creates, on the one hand, pressure on wage growth, but it also has a direct impact on the management function of controlling. At the time of expansion and in the absence of potential staff, the permitted deviations in performance increase and controlling is not so strict when implementing corrective action.

To confirm the validity of our findings, ten examples of qualitative responses from our respondents (including their characteristics) are listed in table 2.

Table 2 Changes in controlling of selected companies in Slovak republic

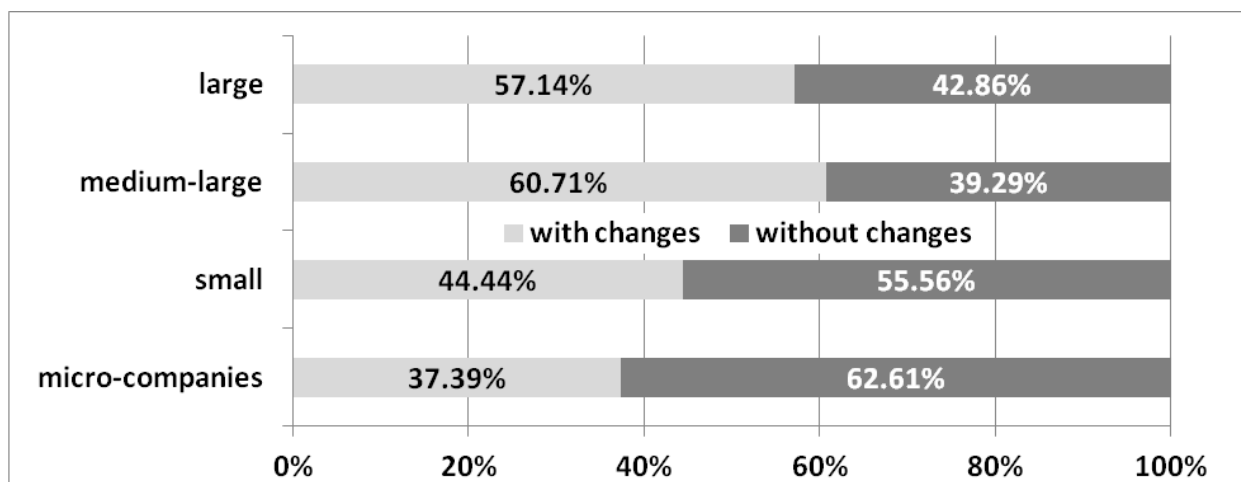
	Changes	Justification	Respondent description
1.	yes	Our customers' quality requirements, attestations, certificates, and even written proofs of controls.	executive, medium-large metal casting company, Trenčin HTU
2.	yes	Less and less skilled and qualified people with a desire to work is forcing us to select candidates who require more rigorous controls and constant training. Unfortunately, this is the current state of the labor market.	site manager, large retail company with electronics, Bratislava HTU
3.	yes	Lately we are particularly interested in protecting our data, the company's internal affairs. Controls are mainly interested with IT, access to our servers, databases, etc.	manager, retail micro-enterprise, Bratislava HTU
4.	yes	Improving compliance with health and safety at work, personal protective work equipment, and fire protection due to frequent inspections of the National Labor Inspectorate.	production director, medium-large construction company, Bratislava HTU
5.	yes	Control is a continuous process, what means changes and new opportunities come constantly.	executive, small real estate management company, Zilina HTU
6.	no	We have not made any changes in the last year regarding the way of controlling. It was not necessary, due the control system was gradually evolving since our founding. It is now working well for our needs.	owner, small wholesale company from Trnava HTU
7.	yes	We are owned by a bank where checks have become a regular practice. In our business (operational leasing of vehicles), it is absolutely unusual, but new controls are increasingly gaining in all spheres.	project and quality manager, medium-large operational leasing company, Bratislava HTU
8.	yes	Because of the ever-increasing claim to reduce internal costs, many processes have gone through how they could improve or implement	logistics manager, large electronics manufacturer,

		new procedures to reduce costs.	Trnava HTU
9.	yes	Our company has its own R&D departments. Automation is very important for our company, and it is also very efficient for the manufacturing company. The constant development of technology has helped us reduce the need for controls over some activities that are no longer performed manually.	production manager, large furniture manufacturer, Trnava HTU
10.	yes	We introduce mechanisms of control mostly of procedural nature. The time and financial costs of controls must be little demanding and automated as possible so that we can talk about effective control in our company, rather than unnecessary bureaucratic control, which, on the contrary, lowers the efficiency of its operation.	CEO, small bookbinding company, Bratislava HTU

Source: own work, HTU – higher territorial unit of Slovak republic

Let us now analyze these overall results according to selected characteristics of the research sample. First, we look closer to the results according to the size of the companies (number of employees in 2015) in figure 2.

Figure 2 Changes in controlling according to the size of company (in %)



Source: own work.

As can be seen in the results, the share of positive responses increases with the growing business size. Small exceptions are large enterprises (40 with changes/30 without), but this can be due to statistical variation. The reason for the high share in medium-large companies (34/22) is mainly due to customer requirements and their adaptation to larger competition. On the other hand, micro-enterprises (43/72) benefit from a small number of employees and their flexibility when changes in controlling can be replaced by other changes.

Given the limitations of our paper, we present the other quantitative results according to other characteristics of our research sample in table 3.

With many characteristics of respondents and their businesses, we see interesting results. Already in the first characteristic, it is obvious that profitable businesses have made changes rather than those that have recorded a loss in 2015. Controlling has, in general, a very positive impact on the economic outcome of an enterprise, but some research limitations may be due to profits optimizing, which was more likely to be possible in Slovakia in 2015.

Respondent's management level is less interesting in the case of controlling changes, as the implementation of changes is rather at enterprise level than at a specific manager level. Certain trends can be found here rather in the question of who is responsible for executing controlling (subject of control) and who is exposed to it (object of control).

Then again, we found a very rare match with the subject of control when an exact half of respondents with a positive attitude to exercising controlling experienced a change and the other half did not. Negative responses show a too small number to make any conclusions.

In the case of the object of controlling, we also cannot express more clear conclusions as the results show no pronounced trend.

In the case of the last characteristic, however, this trend is obvious. The increasing perceived importance of controlling is also accompanied with increases of the number of positive responses to the question of changes in controlling. Except for the second and third levels of importance, we see an increasing number of positive responses. The limitation here may be the mean value that is often used by respondents who do not want to consider an issue further.

Table 3 Changes in controlling according to other characteristics of the research sample

Economic result	with changes	without changes	with changes	without changes	sum
Profit	48,03%	51,97%	122	132	254
Loss	36,54%	63,46%	19	33	52
Balanced	70,00%	30,00%	14	6	20
new company (founded 16/17)	33,33%	66,67%	1	2	3

n/a	50,00%	50,00%	1	1	2
Respondent's management level	with changes	without changes	with changes	without changes	sum
Top	42,50%	57,50%	51	69	120
Middle	59,62%	40,38%	31	21	52
Lower	45,69%	54,31%	53	63	116
Informed	51,16%	48,84%	22	21	43
Attitude to controlling when respondent is a subject of control	with changes	without changes	with changes	without changes	sum
Positive	50,00%	50,00%	126	126	252
Neutral	38,16%	61,84%	29	47	76
Negative	66,67%	33,33%	2	1	3
Attitude to controlling when respondent is an object of control	with changes	without changes	with changes	without changes	sum
Positive	46,75%	53,25%	79	90	169
Neutral	49,23%	50,77%	64	66	130
Negative	43,75%	56,25%	14	18	32
Perception of importance of controlling in company	with changes	without changes	with changes	without changes	sum
absolutely unimportant (1 point)	0,00%	100,00%	0	1	1
little important (2)	41,67%	58,33%	5	7	12
present (3)	34,88%	65,12%	15	28	43
important (4)	42,86%	57,14%	57	76	133
very important (5)	56,34%	43,66%	80	62	142

Source: own work.

V. Conclusion

Controlling is a very important management function, but it has been neglected by scientists for many decades. However, it is this function, which can together with its Siamese twin planning, contribute to the efficient and effective operation of a company. The reason for the neglect in theory we see above all in its position as the last step of the management cycle, but also in the great interest in managerial accounting. For managerial accounting, the term controlling is still used in some countries. This causes confusions both in theory and practice, but we can see slowly the first examples when meanings are not mistaken.

It will be interesting to follow the approach of Western and Eastern theory. While foreign investors in Central and Eastern Europe implement elements of Western theory, many entities in the Western world discover the advantages of a strong bureaucratic controlling from the Eastern world.

Due to our results, we can see that in practice controlling is in motion. Changes are implemented and move from the largest businesses to medium and later to smaller ones. Our next research will concentrate on the statistical analysis of data obtained, as well as an in-depth analysis of qualitative responses.

Since the question regarding the changes in controlling was very broad, we asked additional questions about the changes in concrete. In particular, we wanted to find out if new controlling tools, methods or procedures were introduced in the respondent company in the previous year. From our sample 120 respondents (36,25%) answered positively, 210 (63,44%) negatively and one respondent (0,30%) did not respond to this question.

Other associated questions related to the intensity of controlling: a) that the respondent must spend on controlling the subordinates; b) he is exposed from other control subjects. However, these results are discussed in more detail in our second paper titled Changing intensity of control.

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