



Munich Personal RePEc Archive

Changing intensity of control

Misun, Juraj and Misunova Hudakova, Ivana

University of Economics in Bratislava, Faculty of Business
Management, Department of Management

2017

Online at <https://mpra.ub.uni-muenchen.de/83731/>
MPRA Paper No. 83731, posted 08 Jan 2018 17:10 UTC

Citations for this paper

APA

Misun, J., & Misunova Hudakova, I. (2017). Changing intensity of control. In *International Conference Socio-Economic Perspectives In The Age Of XXI Century Globalization* (pp. 461-474). Tirana: University of Tirana, Faculty of Economy, Department of Economics.

Harvard

Misun, J. and Misunova Hudakova, I. (2017). Changing intensity of control. In: *International Conference Socio-Economic Perspectives In The Age Of XXI Century Globalization*. Tirana: University of Tirana, Faculty of Economy, Department of Economics, pp.461-474.

ISO 690

MISUN, JURAJ and MISUNOVA HUDAKOVA, IVANA, 2017, Changing intensity of control. In : *International Conference Socio-Economic Perspectives In The Age Of XXI Century Globalization*. Tirana : University of Tirana, Faculty of Economy, Department of Economics. 2017. p. 461-474.

Chicago

Misun, Juraj, and Ivana Misunova Hudakova. 2017. "Changing Intensity Of Control". In *International Conference Socio-Economic Perspectives In The Age Of XXI Century Globalization*, 461-474. Tirana: University of Tirana, Faculty of Economy, Department of Economics.

1st Author

First name: Juraj
Family name: Misun

2nd Author

First name: Ivana
Family name: Misunova Hudakova

Paper

Paper title: Changing Intensity Of Control
Pages: 461-474

Conference

Conference title: International Conference Socio-Economic Perspectives In The Age Of XXI Century Globalization
Proceedings title: International Conference Socio-Economic Perspectives In The Age Of XXI Century Globalization Proceedings Book
Publisher: University of Tirana, Faculty of Economy, Department of Economics
City: Tirana
Country: Republic of Albania
Date: December 1 - 2, 2017

Changing intensity of control

Juraj Mišún¹, Assoc. Professor; Ivana Mišúnová Hudáková², Assoc. Professor

Abstract

Every manager must – besides other activities – exercise control over his/her subordinates, no matter if it happens through a direct supervision or through indirect control based on reports or statistics. However, he/she becomes often also an object of control by him-/herself. Based on results of our questionnaire survey in 331 companies, we analyze to what extent managers had to increase their control efforts and to what extent they were exposed to more control from another subject of control in the past year. We analyze the research results according to the different characteristics of our research sample. Due to the quantitative and qualitative results, we also provide reasons for the increase in intensity.

Keywords: organizational control, subject and object of control, intensity of control

¹ Lecturer in the Department of Management, Faculty of Business Management, University of Economics in Bratislava, email: juraj.misun@euba.sk,

² Lecturer in the Department of Management, Faculty of Business Management, University of Economics in Bratislava, email: ivana.misunova@euba.sk,

I. Introduction

Controlling is the terminal sequential function of management and its importance has risen during the last economic crisis. In the Eastern approach, a manager can be either the subject of control, when he oversees an object or the object of control, when another subject oversees him. The subject and object do not need to be necessary from the same system, which means that this is a case of external control. The meaning of external and internal control in the Western approach is different and the internal control is in the Eastern approach called self-control.

II. Theoretical background

Controlling as the last sequential managerial function 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 domestic literature, there are different approaches to the understanding of controlling. Namely, it is regulatory, negative, professional, informational, educational, repressive, cybernetic, and complex. It is ideal if the managers look at control complexly, but in practice we meet with the fact that they often deviate from this ideal. In the professional approach, they leave control to other persons or institutions. In a repressive approach, they abuse control to treat their inferiority complex. In an information approach, they only get information, but forget to act or leave the decision to someone more important. In the regulatory approach, they do not see the importance of preventive action. The very large problem occurs, when the subject of control does not use this function of management properly and causes damages to the objects of control.

We see many negatives, but control should not cause negative feelings to be able to develop all its benefits. One of these approaches is educational, which aims to improve further development by pointing to errors during the process, with penalties following at repetitive errors.

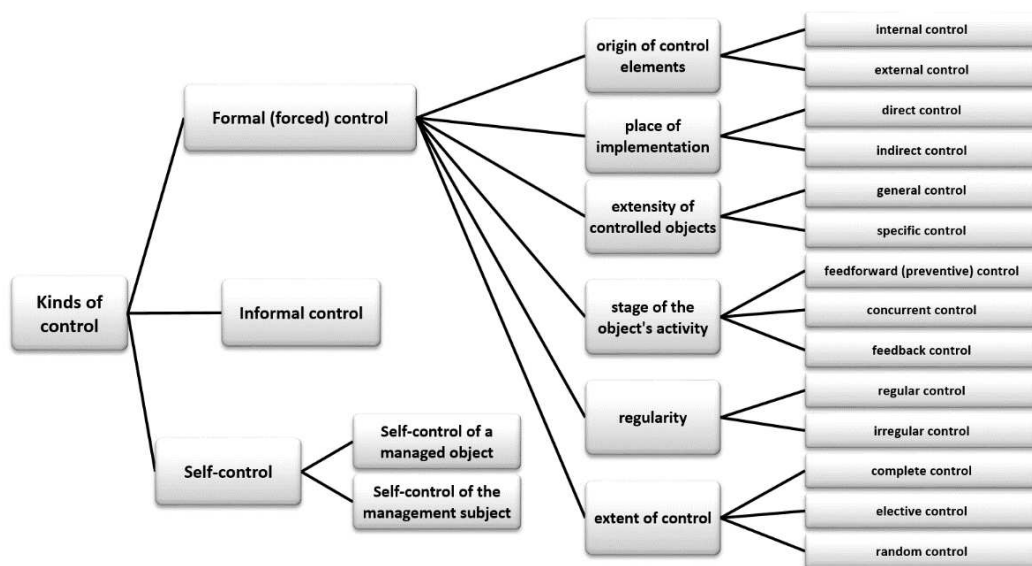
Western and Eastern approach to controlling

Although the current management theory may appear globally identical, there are large differences in the controlling function.

For the needs of our paper, there is a substantial distinction between internal and external control. In the Western approach, “since Rotter (1954) first introduced his theory of social learning, there has developed an extensive body of research surrounding the central construct of locus of control.” While the perceived internal locus of control believes one's personal belief has influence over outcomes through his skills, abilities, and efforts; the external locus of control believes that external forces can control outcomes. (Kaufmann et al., 1995) In the Eastern approach, “control can be classified as external control and internal control from the perspective of control subject.” (Zhang, 2014, p. 45) External control means that the controllers are from the outer environment of the organization (subject and object come from different organizations).

One of the most significant differences is the thoroughly developed typology of formal controls in the Eastern approach, shown in Figure 1. The Western approach to controlling describes mainly the types by stage of object’s activity (feedforward, concurrent, feedback controls).

Figure 1. Typology of control in the Eastern approach



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

Other major differences we discovered during our research of the managerial function of controlling can be found in our second paper with the title Changes in management function of controlling.

Control and controlling

A very complicated issue is, in particular, the separation of the terms control and controlling in Europe. If we study the history of controlling theory, we find it closely linked to financial accounting. It has historically been one of the most important resources for decision-making of managers. Since managers needed more detailed information than financial accounting provided, managerial accounting was gradually created. “Management accounting is the process of measuring, analyzing, and reporting financial and nonfinancial information that helps managers make decisions to fulfill the goals of an organization.” (Horngren, C. T. et al., 2015, p. 4). Management or managerial controlling plays in the controlling process an important role in measuring (2. step) and comparing performance (3. step) with a predetermined standard (1. step). What, however, is very important, it does not take the last step – a corrective action (4. step). This is entirely the responsibility of a manager, who is responsible for the decision.

Unfortunately, during the development in Europe (especially in Germany), the term controlling began to be used for management accounting. At that time, everything was all right, as the term management control was used for the management function of controlling. Some time has passed, and management theorists are beginning to use the term controlling for the managerial function. The reason was, in particular, the fact that it is a process, not an act. Just as the manager plans, hence makes planning, he does not make just one control. He has to do controlling to achieve effective and efficient running of his business.

Subject of controlling

Subject of controlling in our meaning is the entity performing controlling over an object of control and focusing on a certain focus it likes to evaluate and in case of need to bring back on the desired track. We should note that the Anglo-American (and Western overall) controlling theory understands under these something different than the Eastern theory of controlling. Subject is perceived rather what the control is about; the term object is often used for the purpose of the control.

Controlling belongs to the main responsibilities of managers at all levels of each organization. Its content is the monitoring, verification and evaluation of the control object. A manager uses it in its management activity, in particular to eliminate deviations and deficiencies. Controlling can only work in relationship between the subject and the object. Always someone controls someone or something. The subject as the bearer and executor of the controlling function controls the particular object and the system implemented for it in terms of its role, duties, activities, etc. (Kracmar et al., 2013, p. 20)

„Control subjects execute control in an organizational setting. They conduct the relevant control activities by employing specific control techniques“. (Hutzschenreuter, 2009, pp. 27-28) This means, the term subject answers in controlling the question “who is performing control?”, while object of control the question “who/what is being controlled” and the focus of control “what concrete is controlled in the object of control”.

The controlling subject can only become a real system that has the preconditions for target influencing. Control is a component of all possible types of target influencing, especially management, but also governance, administration, commanding, teaching, education, etc. Control is not limited in the society; control subject can be state and citizen, producer and consumer, social group and its member, etc. It results from the fact that everyone who has influence on targets should control. (Kracmar et al., 2013)

We recognize visible and invisible subjects of controlling. They are usually visible, especially when control is carried out by superiors in direct interaction. Subjects are invisible, for example, when social control is done indirectly by other employees. Another indirect form is the so-called “Big Brother” (subject cannot be identified by object, but control activity is perceived). Potential additional forms include electronic controls or mystery shopping. (Hutzschenreuter, 2009)

Main subjects of control are humans and human-created social systems. Supporting control subjects may be inanimate systems (computers, control circuits, automatic control systems, etc.), which control according to the program processed by man. (Kracmar et al., 2013)

The classification of control subjects deals (in the Eastern approach) primarily with the question of the relationship between the subject and the object of controlling. In this case, we distinguish: a) subjects that make up its subsystems (e.g. company staff) and carry out

internal control in relation to it; and b) subjects that are outside the system and carry out external control in relation to it. In other words, in the context of organizations, controlling subjects can be categorized to internal and external.

External control, where the subject and object are not part of the same system, is necessary to balance the various systems, such as the state and the commercial sphere. The state sphere in many cases examines the commercial sphere, and since there are many focuses and contents of the controls, there has been a gradual formation of specialized entities devoted to specific control.

III. Methodology

The presented research results 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 microcompanies, 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

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).

- motorcycles, 46 professional scientific and technical activities, 25 information and communication, 21 accommodation and catering services;
- higher territorial unit of Slovak Republic: 174 Bratislava, 33 Trnava, 24 Nitra, 23 Trencin, 30 Zilina, 17 Banska Bystrica, 22 Presov, 8 Kosice;
 - legal form: 222 private limited liability companies, 66 joint-stock companies, 30 self-employed individuals, 5 branches of an foreign enterprise, 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 $\leq 2M$ 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 our respondents whether they had to increase their controlling efforts in 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.

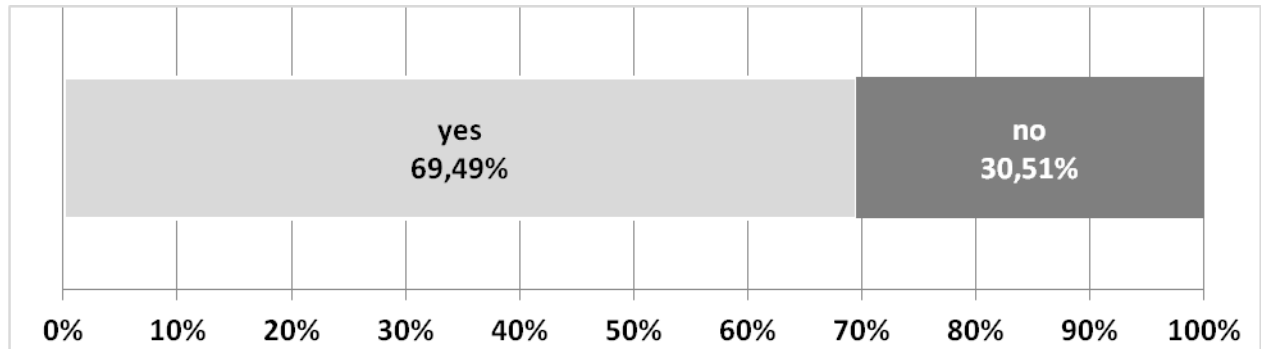
All 331 respondents answered this question; only 46 did not state a justification. Based on this data we are able to make a basic quantitative and qualitative analysis of the changing intensity in controlling.

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

We need also state that besides the control intensity of the subject, we also asked about the intensity he perceived as a controlling object. Given the limited size of the paper, our analysis will be devoted primarily to the intensity the respondent had to spend as a control subject.

IV. Discussion

The overall results on this question speak a clear language. Most respondents had to increase their controlling efforts in 2015 and 2016, which means that they had to control more intensively. Of the total sample 331, up to 230 answers were positive and 101 negative (figure 2 in %).

Figure 2. Increasing controlling efforts over the past year as controlling subject

Source: own work

This is very interesting, because Slovakia was at that time already in the stage of economic expansion. During such period, controlling efforts should be rather reduced and permitted deviations should be enlarged. For such findings, it is very good that we have justifications from the respondents, as we can determine the reasons for the contradictory answers. Although a thorough qualitative analysis is not yet complete, in table 1 are few examples that may indicate future conclusions.

Table 1. Changing intensity of controlling in selected companies in Slovak republic

	Changing intensity	Justification	Respondent description
1.	yes	With the arrival of new employees into production, efforts have been stepped up to motivate them to work.	production manager, medium-large chemical processing company, Trencin HTU
2.	yes	Larger projects with high visibility require more time to control employees or project's status.	project manager, large IT company, Bratislava HTU
3.	yes	We had to increase quality control of one supplier; it was about the quality of his fabric.	manager, small retail company, Bratislava HTU
4.	yes	Control was needed in every direction. Everything depends on the quality of our products. When we want to be successful on the market, we have to take all the measures. When products are high quality, they will be demanded. Customers are very demanding and take care of quality because quantity is not quality.	unspecified manager, large electronics manufacturer, Zilina HTU

5.	yes	We have increased our efforts in particular to check customer ability/inability to pay, where we had the biggest problem not only abroad but also in Slovakia. We have raised our deposit rates to 50%.	owner, small machine installation company, Trenčin HTU
6.	yes	Suitable jobseekers in our businesses are declining, so we had to hire less qualified workers and therefore we need to increase our control efforts. Control intensity over supply relationships has also increased, since we placing greater emphasis on good marketing and services from electronics suppliers.	site manager, large retail company with electronics, Bratislava HTU
7.	yes	Certain factors have been identified which have not been controlled in such detail, so we proceeded to more detailed control.	quality control manager, large electronic component manufacturer, Trnava HTU
8.	yes	Because of competitiveness, we are monitor more customer satisfaction with the use of social media, as well as the quality of the supplied goods, because we try to compete through high quality of services and goods.	executive, restaurant micro-company, Bratislava HTU
9.	yes	Senior management controls more intensively managers, it involves more employees in assessing the planned projects in order to achieve a state of peer control.	project manager, small constructing company, Bratislava HTU
10.	no	Employee turnover is minimal, one could say, none. The company has been working with the same people since establishment, who know the control system well. Self-control in the company works very well. There is no need to increase the intensity.	owner, small wholesale company, Trnava HTU

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

In these open responses, we see a large amount of inspiration and we describe them later in our conclusions. We expect that, after thorough quality analysis and statistical processing and verification, we will be able to determine with certainty the reasons for the increasing control intensity.

We will now proceed with the quantitative analysis of responses based on the different characteristics of our research sample. As can be seen in the methodology, we have different analysis options, but we select only a few and list them in tabular form (table 2).

Table 2. Changes in intensity of controlling according to other characteristics

Size of the company	yes	no	yes	no	ctrl #
micro-companies	62,61%	37,39%	72	43	115
Small	70,00%	30,00%	63	27	90

medium-large	78,57%	21,43%	44	12	56
Large	72,86%	27,14%	51	19	70
Higher territorial unit	yes	no	yes	no	331
Bratislava	74,14%	25,86%	129	45	174
Trnava	63,64%	36,36%	21	12	33
Nitra	75,00%	25,00%	18	6	24
Trencin	56,52%	43,48%	13	10	23
Banska Bystrica	64,71%	35,29%	11	6	17
Zilina	70,00%	30,00%	21	9	30
Presov	54,55%	45,45%	12	10	22
Kosice	62,50%	37,50%	5	3	8
Respondent's management level	yes	no	yes	no	331
Top	62,50%	37,50%	75	45	120
Middle	80,77%	19,23%	42	10	52
Lower	72,41%	27,59%	84	32	116
Informed	67,44%	32,56%	29	14	43
Economic result (in 2015)	yes	no	yes	no	331
Profit	69,29%	30,71%	176	78	254
Loss	73,08%	26,92%	38	14	52
Balanced	65,00%	35,00%	13	7	20
new company	66,67%	33,33%	2	1	3
n/a	50,00%	50,00%	1	1	2
Importance of controlling in company	yes	no	yes	no	331
absolutely unimportant	0,00%	100,00%	0	1	1
little important	50,00%	50,00%	6	6	12
Present	53,49%	46,51%	23	20	43
Important	72,93%	27,07%	97	36	133
very important	73,24%	26,76%	104	38	142

					331
--	--	--	--	--	-----

Source: own work

The results show that managers in medium-large and large enterprises have previously increased the intensity of control. Despite the fact that we have long spotted the underestimation of controlling in micro-enterprises, we have seen a relatively large number of positive responses in this category of enterprises.

The result of the Nitra region is interesting in the analysis of results according to individual higher territorial units. This region has achieved even a higher proportion of positive responses than the capital city (Bratislava) and surrounding (relatively rich) districts.

Regarding the level of management on which the respondent operates, we see that the middle management level had to increase the intensity of their controlling mostly. An interesting fact here is that the share of answers rises with the level of management, but at the highest level of management, we find the lowest share. This result may be due to the inclusion of executives and owners of micro-enterprises among top managers. Up to 28 out of 45 negative responses concerns such inclusion. However, even after exclusion of micro-entrepreneurs from the top-management category, the results not improve and not come from the last place higher. In the category of informed employees, we need to point out that their control objects are not subordinates. In view of this, their results must be assessed in another light.

The economic outcome is very important for our needs, as controlling contributes to the efficiency and effectiveness of business entities. On the other hand, however, we need to point out that there was a relatively good opportunity to optimize profits in Slovakia in 2014 and 2015. This distorts the results because not every loss-making enterprise was necessarily inefficient and ineffective, but could only have optimized profit. Nevertheless, we see a slightly higher share of positive responses in loss-making companies. The total number of companies with balanced business results, established in 2016, and without the result being reported, is too low for good conclusions.

The last characteristic we want to analyze is the perceived importance of controlling of the business in which the respondent works. Based on our results, we can see a clear relationship.

The more important controlling is perceived in the company, the more the controlling intensity increased during the past year.

V. Conclusion

In terms of controlling theory, we expect the implementation of the term management accounting in Germany and Central and Eastern Europe in the coming years. We also expect the Western and Eastern approaches of controlling will come closer to each other, but not in the sense that the Eastern theory will be extinguished. While in the Eastern world managers will be more and more respectful to self-control and informal control, the Western world will feel the greater need for formal controlling.

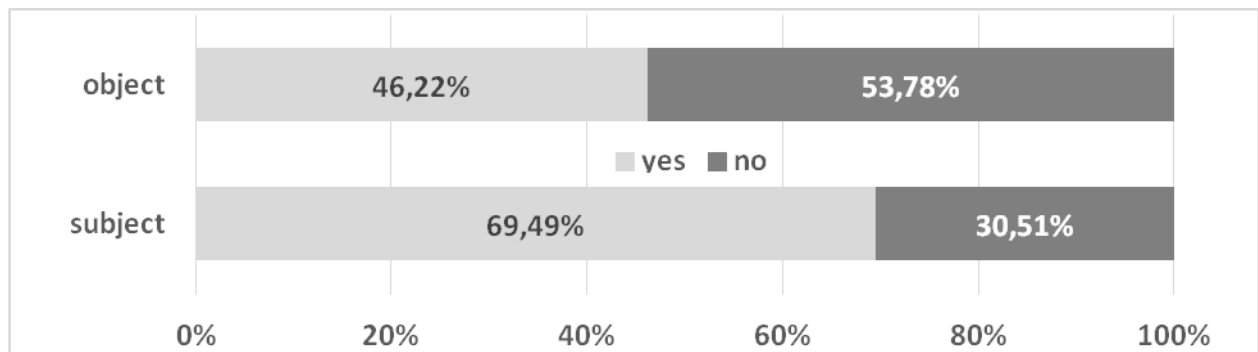
Total intensity of controlling will increase, though it will not necessarily mean higher demands on managers. Automation, digitization and artificial intelligence will also play a role here. Regarding this, however, humanity will have to be very careful to what extent it retains the decision about corrective action on artificial intelligence.

As we can deduct from the ten justifications, companies make good use of the time when the economy is working and trying to improve. In this way, they can prepare well for the recession phase, which, according to the laws of economics, will soon come. Nevertheless, thanks to investing into controlling they will be able to avoid a crisis or reduce its potential consequences. In addition to these justifications, we assume that qualitative responses will involve in many cases new employees, increasing claims from clients and attempts to improve quality of their products and services.

Quantifying results can also be commented to a lesser degree. Large businesses often have control systems in place that are only optimized and, at their size, this change can be left unnoticed by many managers. We see the reason for the changes in the Nitra region in its current as well as future economic growth. The region is starting to suffer from a shortage of employees, despite production at a new Jaguar Land Rover plant has not yet begun. We plan to verify statistically if there is a continuity between the perception of the importance of controlling in the company and the changes of intensity. Relatively small increases in controlling intensity in the case of top managers can be due to delegation and their decision that someone below has to control more.

In addition, in the future, we plan to compare these results with the opposite situation, i. e. when the respondent is the object of controlling. The shares of such responses are shown in figure 3.

Figure 3 Changes of intensity of controlling by subject and object controlling



Source: own work

VI. References

- HORNGREN, CH. T. – DATAR, S. M. – RAJAN, M. V. 2015. *Cost Accounting. A Managerial Emphasis*. Fifteenth Edition. Upper Saddle River (NJ, USA): Pearson Education. 938 pp. ISBN 978-0-13-342870-4.
- HUTZSCHENREUTER, J. 2009. *Management Control in Small and Medium-Sized Enterprises: Indirect Control Forms, Control Combinations and their Effect on Company Performance*. Wiesbaden: Springer. 272 pp. ISBN 978-3-8349-1990-8.
- KAUFMANN, P. J. – WELSH, D.H.B. – BUSHMARIN, N. 1995. Locus of Control and Entrepreneurship in the Russian Republic. *Entrepreneurship Theory and Practice*, 20(1), pp.43-56.
- KRÁČMAR, J. et al. 2013. *Kontrolovanie*. Bratislava: KARTPRINT, 2013. 193 pp. ISBN 978-80-89553-17-4.
- ROTTER, J. B. 1954. *Social learning and clinical psychology*. Englewood Cliffs (USA, NJ): Prentice-Hall.

ZHANG, X. 2014. *Enterprise Management Control Systems in China*. Dalian: Springer Science & Business. 352 pp. ISBN 978-3-642-54714-0.

Acknowledgments: This paper is a part of the research project “Trends of internal control in business entities in the light of new challenges” (no. 1/0135/17) funded by the Scientific Grant Agency VEGA.