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The importance of control in managerial work

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Abstract

Control represents a process through which managers ensure that resources are procured and used efficiently and effectively to meet the goals of the organization. It is a dynamic function interrelated with the other management functions, and it plays a role of critical determinant in achieving organizational success. The individual management functions provide a useful framework for organizing managerial knowledge. Control involves tracking, measuring, and correcting activities to ensure a compliance of actual development with the planned one. Effective controlling requires the existence of plans, since planning provides the necessary performance standards or objectives. Controlling also requires a clear understanding of where responsibility for deviations from standards lies. The paper contains the results of questionnaire survey realized in 331 companies aimed to determine the importance of control process in carrying out daily managerial tasks in different types of organizations active in various sectors. We analyze the attitudes of managers when they are controlling and when they are being controlled with emphasis on main reasons. The paper confirms the importance of control in management work, while one of the most obvious benefits of controlling function is that it provides the accurate information which is wanted for effective decision making process as well as maintaining effective functioning state of a business.

Key words: management function, importance of control, managerial work

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I. Introduction

A significant part of a manager's work is to control the processes involved in the successful operation of a business. It is important for managers to set the right standards, measure their performance benchmarked on these standards and, where necessary, take the corrective measures. Management control systems are tools to help management for steering an organization toward its strategic objectives and competitive advantage. Management controls are only one of the tools which managers use in implementing desired strategies. However strategies get implemented through management controls, organizational structure, human resources management and culture. Effective controlling requires the existence of plans, since planning provides the necessary performance standards or objectives. Controlling also requires a clear understanding of where responsibility for deviations from standards lies. Two traditional control techniques are the budget and the performance audit. Although controlling is often thought of in terms of financial criteria, managers must also control production and operations processes, procedures for delivery of services, compliance with company policies, and many other activities within the organization.

II. Theoretical background

Control is one of the functions of management and it is performed by managers at all levels of organization, who are responsible for the work assigned to them and at the same time they exercise control over the subordinates regularly to ensure the achievement of goals.

According to business dictionary management control is one of the management functions aimed at achieving the defined goals set by an enterprise within an established timetable. Control in management is usually understood as setting standards, measuring actual performance, and taking a corrective action. A typical process of management control includes comparison the actual performance with the planned one, measuring the difference between the two states, defining the causes of differences and corrective action, and subsequent deployment of a corrective action to eliminate or minimize the difference.

Management control was defined by R. Anthony (1965) as the process by which managers ensure that resources are obtained and used effectively and efficiently in the achievement of

the organization's objectives. Control is in many ways about developing the tools to measure performance. It is associated with the development of the balanced scorecard (Kaplan & Norton, 1996). Although a modern management control assumes the use also non financial and multi dimensional performance-based measurement, companies still tend to operate through financial statements. Management control is closely related to the planning function of management.

The authors Malmi and Brown (2008) argue about the concepts of management controls and organizational control. They suggest the use of the concept of management controls rather than organisational control, because in that case, organizational controls could include controls that are not only directed at employees, such as quality and inventory controls.

Management control can be divided into two types, both formal and informal. Formal controls include rules, standard operating procedures and budgeting systems. These are the more visible, objective components of the control system. Informal controls are not consciously designed. They include the unwritten policies of the organization and often derive from, or are an artefact of the organizational culture (Langfield-Smith, 1997.).

R. Simons (1994) defines management control systems as formal, information-based routines and procedures that managers use to maintain or alter patterns in organizational activities. He mentions a new theory of control where balance in competing demands is required. Natural tensions must be controlled; it means tensions between freedom and constraint, between empowerment and accountability, between top-down direction and bottom-up creativity, between experimentation and efficiency. Managers do not choose for example increasing empowerment over accountability, they must have both in their organizations.

Regarding to D. Otley (1999) management control systems provide information that is set to be helpful for managers in performing their jobs and to assist organizations in developing and maintaining feasible patterns of behaviour. Any assessment of the role of such information therefore requires consideration of how managers make use of the information being provided to them.

The interactive use of management control systems represents a positive force as they are used to expand opportunity seeking and learning throughout the organization. The interactive use focuses attention and forces dialogue throughout the organization by reflecting signals

sent by top managers. It stimulates the development of new ideas and initiatives and guides the bottom-up emergence of strategies by focusing on strategic uncertainties (Henri, 2006).

III. Research methodology

The aim of the paper is to clarify the internal control trends that we have discovered in the available professional and scientific literature and to provide with the results of the research related to the application management control function by the enterprises in Slovak Republic. The results presented in this paper compile information from a primary survey that collected data gained by standardized questionnaires in the years 2016 and 2017. It is focused on the new trends in internal control and it is freely linked to a two year earlier realized questionnaire survey aimed at external auditing of enterprises.

A total of 395 completed questionnaires were obtained, of which 376 were further processed. The nineteen questionnaires were discarded for various reasons. The sample is not statistically representative for the Slovak Republic but is compatible with its parameters. Due to the fact that for several purposes (e.g. manager's attitude to control) multiple respondents from one enterprise were allowed. For the purpose of this paper we have made a further selection of the sample. In order to exclude duplicate questionnaires from the same companies, we always choose the most senior manager as a respondent, who should have the best knowledge of business situation and processes. Consequently, our survey sample consisted of 331 businesses remained for further processing.

IV. Results and discussion

The submitted paper is a part of more comprehensive research, wherein we are identifying the trends of internal control in enterprises in Slovakia. In the present paper, we focus more closely on the evaluation of the importance of control function, on comparison of the evaluated importance of management control function with respect to the enterprise's identification data and on the analysis of attitudes of respondents both when they are controlling and being controlled.

Research sample characteristics

Taking into account the size of enterprise¹ (y. 2015), in the presented research took part 115 micro-enterprises, which accounted for 35% of the surveyed sample. The second largest group of companies was small enterprises, the number of 90 (27%). Large enterprises (over 250 employees) were 70 and accounted for 21% of all enterprises surveyed. The smallest count was from category of medium-sized enterprises, 56, which represented 17% of the sample. From the point of view of the legal form of enterprise, the most participated in the survey were limited liability companies in count of 222 (67%). The second most numerous group of companies were joint stock companies in count 66, representing 20% of the sample. Legal form of the self-employed person was represented by 30 respondents (9%) and the rest were organizations of other legal forms (4%). The most numerous groups according to the classification of economic activities SK-NACE according to the Statistical Office of the Slovak Republic were: industrial production (69 respondents, 21%), wholesale and retail (66 respondents, 20%), professional scientific and technical activities (46 respondents, 14%), information and communication (25 respondents, 8%) and accommodation and catering services (21 respondents, 6%). Respondents, with regard to the subject of a questionnaire, were from top management (120 respondents, 36%), middle management (52 respondents, 16%), lower management (116 respondents, 35%) and informed staff² (43 respondents, 13%). In the questionnaire, we further investigated the financial results (y. 2015). Accordingly, we could divide businesses into profitable (77%), loss-making (16%) and balanced (6%), with no information from 2% of respondents. The enterprises according to the annual sales (y. 2015) were distributed as follows: up to 2 mill.€ (50%), up to 10 mill.€ (13%), up to 50 mill.€ (18%), over 50 mill.€ (15%), the rest (4%) not specified.

In addition to the identification part, the questionnaire was composed of several parts, through which we obtained the data necessary for our research. It contained questions about the respondent's attitude to control, the importance of controlling in their business, whether they had seen changes in control last year, whether a new method, technique, or tool was

¹ company size measured by number of employees, annual turnover and annual balance sheet. These criteria are based on the classification recommended by the European Commission (European Commission Recommendation 2003/361 / EC, effective 1 January 2005). In the research study, we applied the size classification of enterprises based on number of employees.

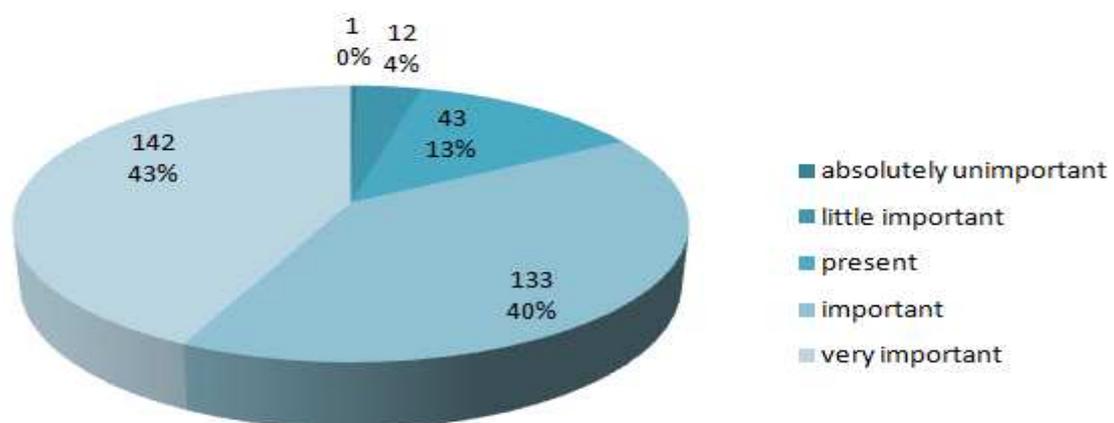
² employees who have access to valuable information for the needs of our research, such as accountants, economists and employees directly responsible for the control execution.

used to control, whether managers had to increase their control efforts or vice versa whether they sense a higher intensity of control from a higher-level subject.

Analysis of research results

The respondents were required to identify the importance of the control as a managerial function in their enterprise. The five-point scale was offered, while there were options: absolutely unimportant, little important, present, important and very important. The results are shown in the Fig. 1, where it is clearly visible high importance of control function in process of management. The absolute majority of companies (83%) consider control as important (rate very important and important). Most of them (43%) assess control process as a very important element in managing the organization. 13% of the research sample has a neutral attitude towards the control and for 4% of respondents is control just a little important or unimportant.

Figure 1. The importance of the management control function in enterprises



Source: own research.

In the next section, there is a comparison of the importance of management control function evaluated by the respondents with respect to enterprise identification data, namely:

- size category,
- legal form,

- industry,
- financial results,
- working position of the respondent.

When analyzing the importance of control in management in enterprises of different size, we can say that the size category rated control function as unimportant and little important most often were micro-enterprises (7%). None of other size categories assessed control as absolutely unimportant. The greatest importance was attributed to control by large enterprises over 250 employees, and that 90% (important and very important) and most of them consider it as very important (54%). More than half medium-sized enterprises consider control as very important, too. The research results are shown in the Table 1.

Table 1. The importance of control by enterprise size

| Size category | absolutely unimportant | little important | present | important | very important |
|------------------------|------------------------|------------------|---------|-----------|----------------|
| large > 250 employees | 0,00% | 0,00% | 10,29% | 35,29% | 54,41% |
| medium < 250 employees | 0,00% | 1,89% | 13,21% | 33,96% | 50,94% |
| small < 50 employees | 0,00% | 3,61% | 10,84% | 46,99% | 38,55% |
| micro < 10 employees | 0,79% | 6,30% | 15,75% | 40,94% | 36,22% |

Source: own research.

Regarding to Table 2, control is least important for a self-employed person (10%). The most of respondents of this category have neutral attitude when assessing the importance of control in their enterprise (23%). The largest share of respondents in joint stock companies evaluates control as an important part of management (89%). 44% of the respondents from limited liability companies see control as very important.

Table 2. The importance of control by enterprise legal form

| Legal form | absolutely unimportant | little important | present | important | very important |
|----------------------|------------------------|------------------|---------|-----------|----------------|
| limited liability | 0,00% | 4,50% | 12,61% | 39,19% | 43,69% |
| joint stock | 0,00% | 0,00% | 10,61% | 46,97% | 42,42% |
| self-employed person | 3,33% | 6,67% | 23,33% | 30,00% | 36,67% |
| other | 0,00% | 0,00% | 3,33% | 61,67% | 35,00% |

Source: own research.

While comparing the importance of control in terms of industry (Tab. 3), we worked with the five most numerous groups from the sample: industrial production (21%), wholesale and retail (20%), professional scientific and technical activities (14%), information and communication (8%) and accommodation and catering services (6%). As the most important was control assessed by enterprises falling within an industrial production (57%). Neutral attitude to control, that is present in the organization, had respondents from industries information and communication (28%) and accommodation and catering services (24%). The lowest importance of control was reported in enterprises dealing with professional scientific and technical activities (7%).

Table 3. The importance of control by classification of economic activities (SK-NACE)

| SK-NACE | absolutely unimportant | little important | present | important | very important |
|--|------------------------|------------------|---------|-----------|----------------|
| industrial production | 1,47% | 2,94% | 4,41% | 33,82% | 57,35% |
| wholesale and retail | 0,00% | 6,06% | 7,58% | 50,00% | 36,36% |
| professional scientific and technical activities | 0,00% | 6,52% | 13,04% | 34,78% | 45,65% |
| information and communication | 0,00% | 0,00% | 28,00% | 40,00% | 32,00% |
| accommodation and catering services | 0,00% | 0,00% | 23,81% | 33,33% | 42,86% |

Source: own research.

From the point of view of the financial results (Tab. 4) 85% of profitable enterprises and the same percentage of enterprises with a balanced economic outturn find control function as important. The same think 77% of companies that have achieved a loss. Up to 20% of them have neutral attitude to the control process.

Table 4. The importance of control by financial results of enterprises (y. 2015)

| Financial results | absolutely unimportant | little important | present | important | very important |
|-------------------|------------------------|------------------|---------|-----------|----------------|
| profitable | 0,39% | 3,54% | 11,02% | 39,76% | 45,28% |
| loss-making | 0,00% | 1,92% | 21,15% | 38,46% | 38,46% |
| balanced | 0,00% | 5,00% | 10,00% | 50,00% | 35,00% |

Source: own research.

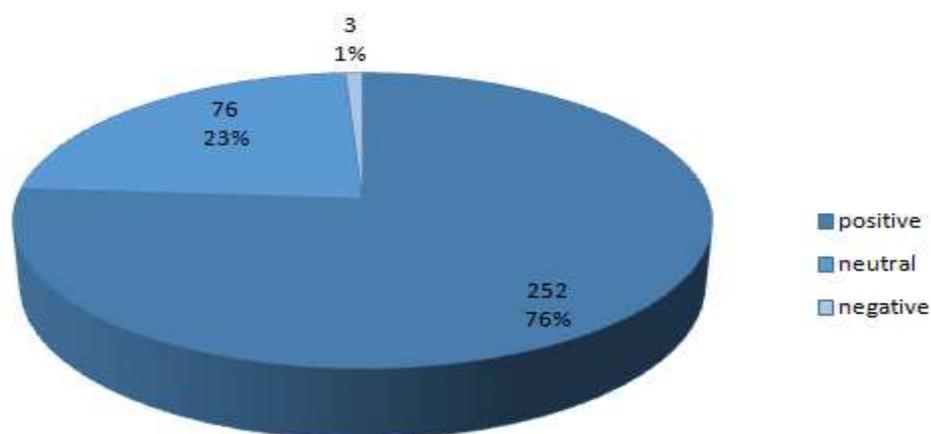
Based on the analysis of the working position of respondents (Tab. 5), we found out that for 94% respondents from middle management is control important, for 54% it is very important. The same valuation provided just 71% of top management and informed staff. The most respondents from top management and informed staff reviewed a control in management as a not important element.

Table 5 The importance of control by work position of the respondent

| Work position | absolutely unimportant | little important | present | important | very important |
|-------------------|------------------------|------------------|---------|-----------|----------------|
| top management | 0,00% | 5,00% | 15,83% | 35,00% | 44,17% |
| middle management | 0,00% | 0,00% | 5,77% | 40,38% | 53,85% |
| lower management | 0,86% | 3,45% | 12,07% | 43,10% | 40,52% |
| informed staff | 0,00% | 4,65% | 16,28% | 46,51% | 32,56% |

Source: own research.

In this paper, we present also the attitudes of respondents when they are controlling and when they are being controlled based on the research results. All 331 companies from the research sample answered the questions. The results are in Figure 2 and Figure 3. At the same time, the respondents had a possibility to justify their personal attitude to control when they do it, or when someone else does the control, but it is directly relevant to them.

Figure 2. The attitudes of respondents when they are controlling

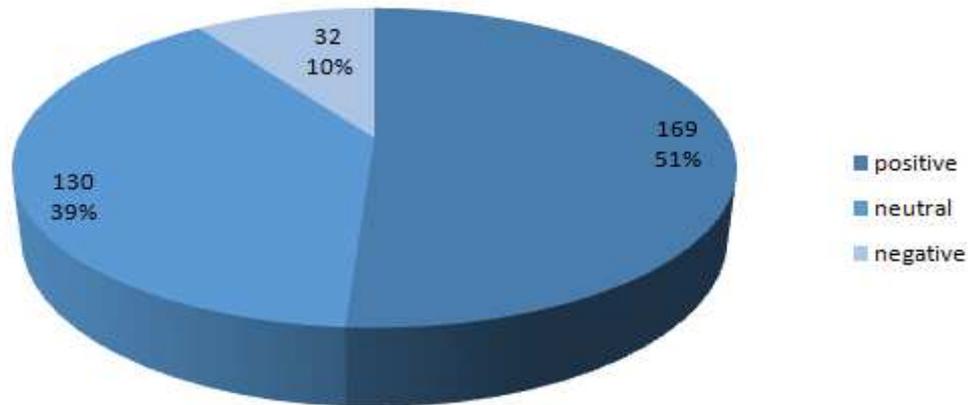
Source: own research.

The vast majority of businesses have a positive attitude while they are controlling (76% of the respondents). One fifth of the respondents have a neutral attitude while controlling, and only three respondents (1%) expressed negative attitude when they exercise the control.

The negative attitude to control was caused by taking over the role in which people can perceive negatively also the control executor. Respondents, who identified a neutral attitude to control, mentioned control process as required and necessary in keeping quality and avoiding the mistakes, they take it as a matter of course, but on the other hand, it consumes much time to the detriment of other work tasks. Respondents having positive attitude as o

controlling subject declared improving quality and work efficiency, reducing error rates and smooth running of the business. They identified control as a very important for further improvement.

Figure 3. The attitudes of respondents when they are being controlled



Source: own research.

Slightly different results provide the next question, when 25% fewer respondents declared they have a positive attitude while they are being controlled (51% of the respondents). Neutral attitude proclaimed 39% respondents of the sample and the rest of respondents (10%) said they have a negative attitude while they are being controlled.

The respondents with negative attitude while they are being controlled mentioned a lack of trust, lack of information, poor cooperation and great time consumption. Respondents who have a neutral attitude while they are being controlled understand the need of control and they take it as a natural part of processes. A proper control can have a positive effect and improve the state of things and they can also get some feedback to learn by their own mistakes. Respondents with a positive attitude to the control performed by someone else declared that it can help them to achieve the goals and plans, to increase the sense of responsibility and motivation and it can be beneficial to their professional growth.

V. Conclusion

Command-and-control techniques are no longer enough in competitive environments where creativity and employee initiative are critical to business success. Increasing competition, rapidly changing products and markets, new organizational forms, and the importance of

knowledge as a competitive asset have created a new emphasis that is reflected in such phrases as market-driven strategy, customization, continuous improvement, meeting customer needs, and empowerment. Based on the results of our research and literature review we compiled a theoretical basis related to the trends of internal controlling in business entities in the light of new challenges. We focused on definition of control as a function of management and management control systems. We researched clearly a high importance of control function in process of management. The greatest importance was attributed to control by large enterprises (over 250 employees), from the point of legal form joint stock companies, with their activities focused on an industrial production, mostly profitable with a respondent from middle management. Our research has shown that the vast majority of businesses have a positive attitude while they are controlling (76% of the respondents) and 25% fewer respondents declared they have a positive attitude while they are being controlled (51% of the respondents).

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