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Control(-ling): Known/Unknown

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Juraj Mišún

Abstract

Controlling – a very powerful word. When someone hears it, he/she feels influence and power. Controlling is an English word; unfortunately it isn't used just in the English language. When you hear this word, you might have the feeling that everything is clear to you. In fact, it is not all that clear. You have to ask yourself what language you are speaking currently and where in the world you are. You may have learned that controlling is not control. And also that control is something bad. In reality, however, the world of control is not so simple and this fact is closely related, among other things, to the history of the word control. Control itself in the management has different approaches, including in particular the Western and Eastern one, but also internal control can take on different meanings. The purpose of this paper is to point to various myths in the management function of control and to clarify some terms that are often misused. It is based on our long-term research of the management function of control.

Keywords

Control, Controlling, Management, Business Economy, Internal control

JEL Classification

M10, M19

Introduction

Control is in addition to planning, organizing, staffing and leadership one of the so-called sequential management functions. Also due to its status as the last step of the management process, it is the least researched function. Based on the study of literature, 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. Despite the fundamental nature of this phenomenon, its importance and some significant progress, this scientific area is still neglected. Specifically, control is poorly captured in its constructs, determinants, and effects. (Sitkin et al., 2010) We still lack an

integrated conceptual framework to understand, visualize, and analyze control issues. (Flamholtz, 1996)

Fayol brought one of the first definitions of managerial function of control 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.”

The controlling function of management can be a critical determinant of organizational success. (Merchant, 1982) Failures in control can lead to large financial losses, damage to reputation, and even to the failure of the entire organization. (Merchant & Van Der Stede, 2007) Its importance derives from its versatility as well as from many implications of how organizations behave. (Tannenbaum, 1965) Through control, companies try to increase the probability that individuals and groups will behave in a way that will lead to organizational goals. This means that control is purposeful and its purpose is to influence people to take action and make decisions that are in line with the organization's goals. (Flamholtz et al., 1985) Control is an incentive for the subject of management to ensure dynamic balance by new decisions. (Konečný, 1998) 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)

Controlling isn't controlling

For many people it may be surprising, but the term “controlling” is used as a chapter title perhaps in every English-written management textbook. And no, the main content of this chapter is not the calculation of various ratios and the overall work of the controller.

How come? Well, the term controlling is not only used in English, but also in the German language. Thanks to the extensive knowledge of German language in the Central and Eastern European countries, the word controlling is used in the German meaning as well in the local languages.

The Germans have the word “Kontrolle”, but they do not like it too much. In some German publications, it is referred to as inferior, in others directly as dangerous. It is caused by the history of the control.

Depending on the author, the word “control” comes from the Latin (Majtán, 2016) or French language (Pfeifer, 1993). The original French/Latin meaning was “counter register for confirming the information from an original register.” However, in the 15th century, the word

enters the English language. Due to the turbulent events, the word gains a different meaning (regulation, domination and direction), which was later re-introduced into continental Europe. In both Germany and France the word control gained a very negative meaning thanks to Napoleon and Metternich.

Now, when someone says “I have everything under control”, he/she does not definitely meaning “I have everything in comparison.” Unfortunately, in many publications it is the case. Especially when words “control” and “controlling” have to be compared. “The German-language controlling literature seems to have a rather disturbed relationship to control.” (Schäfer, 2009, p. 47)

To bypass the limitations resulting from the German meaning of the word “Kontrolle” Albrecht Deyhle introduced at the beginning of the seventies a new term in German business economy – controlling. He probably mistakenly assumed that the word was not used in English business literature. But the managerial function got this name in 1955 by Koontz and O'Donnel (1955).

This is how the two controlling(s) history began. Due to the size of the market for German-speaking countries, there was not a large crash of the two meanings. Nowadays, due to the English language extension in Europe, it is often necessary to use the phrase “German controlling”.

However, as has already been mentioned, Germany has a very strong sphere of influence in Central and Eastern European countries, and it is often necessary to mention “controlling in management” by the management authors.

Control(-ling) is something bad

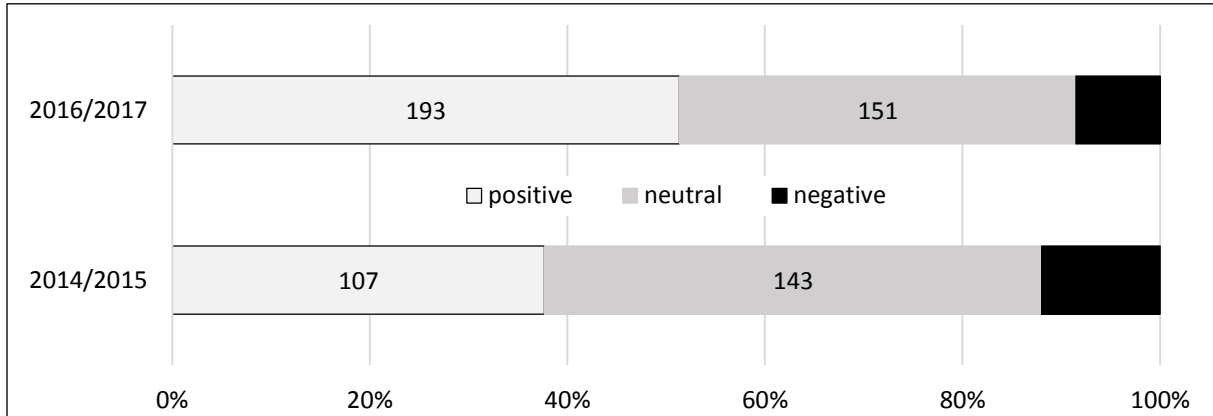
We have already mentioned that control or controlling has a very negative meaning in our latitudes. Apart from Napoleon and Metternich, the Communist regime has also contributed greatly to this perception. Controlling by state's security forces in the given period did not have a nice process or a good result. This could end up in a negative perception of control by current managers who still had experience with the communist regime.

Many people, when knowing they will be controlled in some way, feel uncomfortable. They are afraid of the consequences, fearing the loss of power over themselves. How can control have any good value in such a hostile environment?

Well, it can. Based on our two surveys in 2014/2015 (284 respondents) and 2016/2017 (376 respondents), we can conclude that managers are not only not afraid of control but have a virtually positive attitude to it. And no, we do not mean the situation, in which a manager

performs control over an object. We mean a situation, when a manager is an object of control by himself (figure 1).

Figure 1 Attitudes to control in role of the object of control

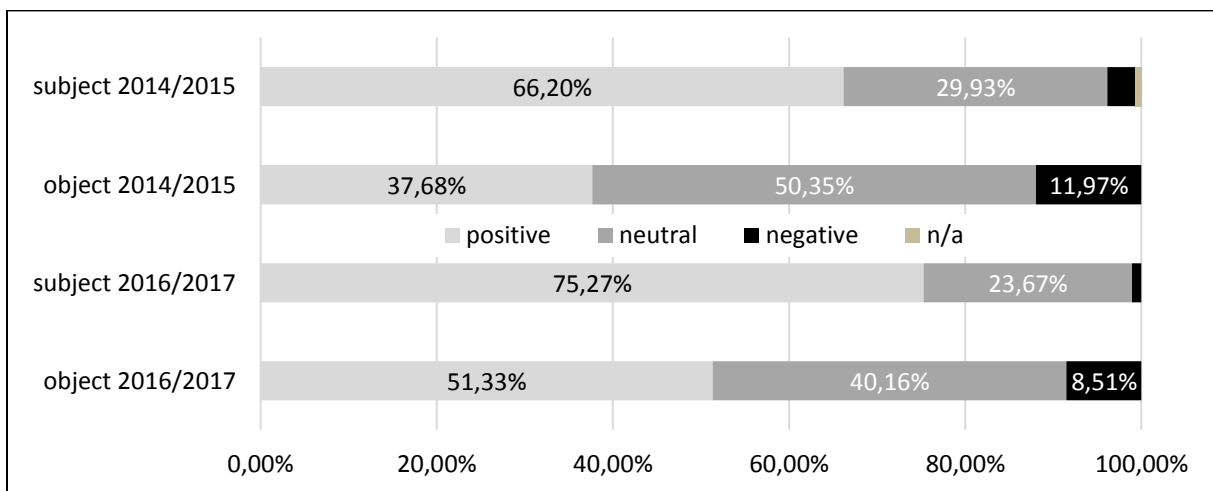


Source: Mišún, 2017

Due to the fact that our questionnaires also included justifications of the attitudes, we know that managers understand that control may bring them personally some benefits. These might be in the form of reduction of errors, prevention of damage, learning from their own mistakes or new knowledge.

However, in order not to create too positive picture of managers, we also have to conclude they have a much more positive attitude to control when they are subjects and can perform control over someone. (figure 2)

Figure 2 Changes in attitudes to control when subjects become objects of control



Source: Mišún, 2017

Western and Eastern approach to control

Although the current management theory may appear to be globally identical, there are large differences in the control function. During our research, we have discovered several diametrical differences between Western theory of control and the theory that gradually developed in the Soviet bloc countries. We call this theory the Eastern approach to control. However, the common feature is not geographic location, but similar history. While China is part of Eastern approach, India and Japan are not. Nearly all of the studied works from the last two mentioned countries have a clear connection to British and American literature.

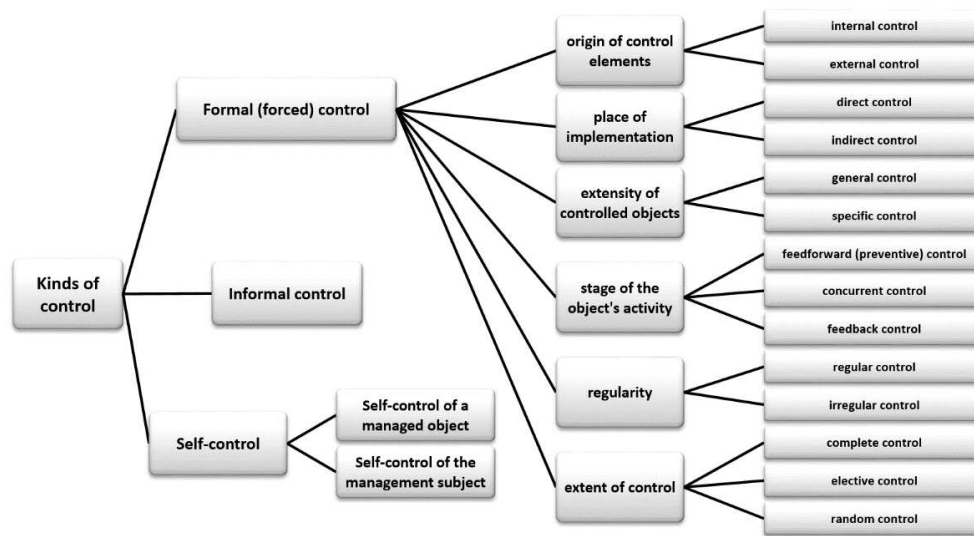
We believe that these differences are due to the genetics of dictatorial regimes. Strict formal control brings high discipline. We use the word “genetics” intentionally, as we observe not only the “I have to control someone” opinion but also the “I want to be controlled by someone” approach in our surveys. We point out the major differences between the Western and Eastern approach to control in table 1, while the sophisticated classification of formal control is shown in figure 3. On the other hand, there is the Western approach that puts emphasis on self-control and self-discipline with the opinion “in order to make a good job, I have to control my work by myself”.

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.

Figure 3 Typology of control in the Eastern approach



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

Three meanings of internal control

There is another important aspect that we have mention – three different meanings of the term internal control.

First, there is the Eastern approach. The difference between internal and external controlling lies in whether the object and subject of control are part of one system or not. “Control can be classified as external control and internal control from the perspective of control subject.” External control means that the controllers are from the outer environment of the organization (subject and object come from different organizations). Examples include controls from government sector, financial control, taxation control, government audit control etc. (Zhang, 2014, p. 45)

Secondly, the Western approach places emphasis on the individual. If he/she is sufficiently motivated, he/she may not be heavily controlled by anyone else (external control) and can perform sufficient supervision on his/her own work and results (internal control). “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)

Thirdly, there is the popular practical financial meaning of the Committee of Sponsoring Organization (COSO) with its great emphasis on finance, risk, and so on. “Internal control is a process, effected by an entity’s board of directors, management, and other personnel,

designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.” (Committee of Sponsoring Organizations, 2013)

Control isn't important anymore

One of the other myths concerns the importance of control itself. Over the last decades, focus has often changed from the way the work is done to the goal whether it has been achieved or not. Simply put, the way in which certain activity was performed was left to the management object and the subject of control checks only whether the goal was achieved. What does it mean for theory and practice of control? The answer is simple: controlling takes less time for the manager, and overall it should lose importance. Employees and subordinates generally gain more responsibility and fulfill their goals by appropriate behavior. Self-control gains much more importance.

Is that really true in practice? Do managers really need to perform less control and therefore perceive less importance of control? Our research from 2016/2017 has a clear answer to this question: no.

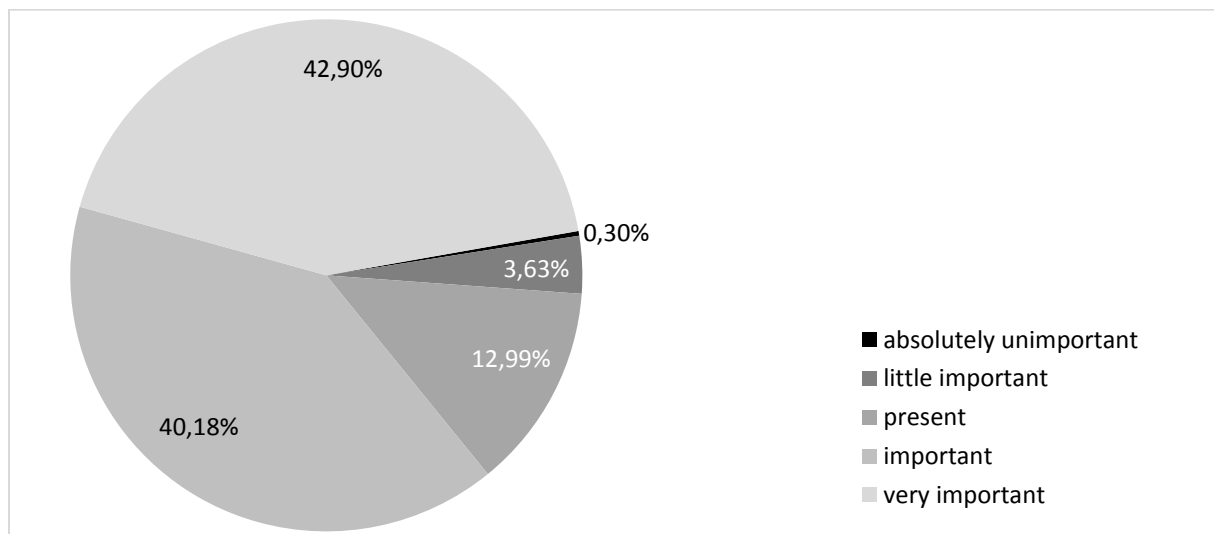
When we asked managers from 331 businesses how they perceive the importance of control in their companies on a scale from absolutely unimportant to very important, their responses were surprising in the light of the previous statements. The largest group, 142 respondents, stated the managerial function of control is “very important” in their companies. The second most numerous group of respondents (133) considers controlling as “important” in their company. The neutral group, which perceives controlling in their business as “present”, had 43 members in our sample. “Little important” was controlling according to our respondents in 12 companies and only one respondents stated that controlling is in his enterprise “absolutely unimportant”. If we change the verbal rating to a scale of one (absolutely unimportant) to five (very important), the average value reached 4.21, the mode value 5, and the median value 4. Percentual expression of individual responses is shown in Figure 4.

The results showed that the larger the enterprise, the higher the importance of the management control function. In addition, the higher the manager is situated in company's organizational structure (hierarchy), the more important controlling is considered. An exception to this rule is micro-entrepreneurs.

While small businesses (micro-enterprises and small businesses) are able to exercise a large degree of direct control, with the increasing size of the business, this possibility is lost. Instead of directly supervising employees, managers of larger businesses must rely heavily on

different reports or statistics. Direct supervision gives the impression of lesser control. In fact, this should not reduce the importance, because control is still practiced, only in another way. When something can cause such a reduction of importance, it is trust in subordinates, their high self-discipline and responsible self-control. Automated control is another option as it makes manager's work easier and, as time goes on, employees perceive it as a regular part of their work.

Figure 4 Importance of management function control in Slovak companies



Source: Mišún, 2017

Conclusion

Well, with control in the management it is not easy. On the one hand, it is not sufficiently researched; on the other hand it is often cursed. Sometimes neglected by scientists, sometimes hated by employees. And..., at the end of the management process. What big enthusiasm has to be expected on the last pages of a book?

And then obstacles begin to appear. The main term is also used somewhere else and not exactly in the same meaning. Controlling takes on the meaning of management accounting in continental Europe. However, we see the bright light at the end of the tunnel, when several German authors either use the term management accounting, or combine the two theories into one. We have great hopes in German authors as they will gradually influence authors in Central and Eastern Europe. Perhaps one day we will not have “everything in comparison” but “everything will be under control”.

The image of the control is slowly but surely changing for the better. In addition to the fall of communism, the good condition of the economy contributes to this. Managers understand that

they are not infallible that they can make a mistake and that it is good if someone sees they are doing good work. Let us hope that the crisis, which is definitely waiting somewhere around the corner, will not send control again to the rejection.

The East and West approach to control is the chapter on its own. Perhaps at first glance, the Eastern approach may seem like something unnecessary, overwhelmed, and spoiled. However, in the crisis, it can be a drug for many diseases. Therefore, we continue to research even older literary sources from former eastern Berlin to the easternmost landmarks of Russia. We do not see much importance in the fight for the term of internal control. We consider the financial view on internal control to be too strong to be replaced by the system view (Eastern approach). The motivational view on the other hand does not collide with the overall theory, and the reader quickly finds out whether he is reading a publication in the field of psychology or management when looking a little bit better. If real problems should arise, a simple solution would be to use the terms inner control and outer control in the Eastern approach.

It seemed that the old good bureaucratic control had fully lost its significance. Self-control seemed to be the starting point. But then the financial crisis came and control showed that it can hide but it can not disappear. Even the managers themselves understand the importance of control as a tool for guiding the order by which they can effectively and efficiently work.

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