

# Controlling as a Management Function

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*Abstract: An SME is able to cope with the global challenge through reliable, balanced and high-standard operation in its business. As a management tool and management function as well as a factor affecting competitiveness, the role of controlling has become more and more significant. Controlling is a managerial function based on information management, a managerial tool to plan, supervise, analyse and control events in a company. Controlling is a system which serves to support the enterprise management with coordination and information. It is implemented via planning, supervising and improving alternative strategies for management. The controlling system as a managerial function affects basic activities of the organisation.*

## 1. Introduction

Successful company management largely depends on the management tools supporting the process of decision-making. Necessarily a suitable system of registration, navigation as well as indication should be created. [4] As for the interpretation of the ‘controlling’ concept involving its aims, contents, device system and application potentials, views held by theorists and professionals working in this field diverge. Benefits of controlling can be merely justified if profit to be obtained surpasses costs of development and introduction. Controlling is future-oriented, instead of focusing on the past it is concentrated on the future. Strategic controlling analyses success potentials, whereas the task of operative controlling is to achieve objectives concerning profits and solvency estimates by means of planning and comparing planned and actual performance. Controlling exerts its influence in a special learning process throughout the whole organization. Controlling organisation is meant to support leadership via jobs

related to planning, analysis and supervision, all of which are utilised by the management. [1]

Controlling supplies up-to-date information about:

- trends on the market, in turnover and sales
- gross margin
- contents of costs, deviation from plans
- tendencies in orders, their further impact
- the balance of solvency
- progress made in investment and development.

The Institute for Organisation and Management of the Budapest Tech where an SME research and development team is operating – in cooperation with the University of Banská Bystrica as well as other research institutes in Hungary and abroad – puts great emphasis on investigating the role of controlling in increasing the competitiveness of businesses. Since the management revolution highlighted by the theories of Frederick Winslow Taylor and Henry Fayol, plenty of global changes have occurred. Competitiveness has become the major factor to determine the economic and social power represented by companies and nations. Research teams in the cooperative countries are taking the challenge to analyse the role of management in the competitiveness of SME. [6][7][8][9][10]

One of the surveys of BT SME research group, currently in progress, analyses competitiveness, focusing on EU membership and a new competitive environment created by globalisation. The operational and organisational conditions of competitiveness are manifold and involve each specialist area as well as management and direction itself. [2][3]

## **2. Research Method**

Both empirical and theoretical approaches were involved in the research work accomplished in the above-mentioned field of study. Research methodology thus shall be divided into three major categories:

- Theoretical research, whose function is to lay the grounds for study of individual groups of problems
- Elaborating our own methods on a scientific basis, simultaneously incorporating empirical experience
- Processing practical experience

During the research the methods relevant for these three categories or their combinations shall be applied:

- Thanks to research accomplished by studying libraries of controlling research we have shed light upon the issue of the usage of the concept of controlling

- Via comparison of various schools (or trends) we have set up a model of the controlling system as such

In the area of the specific question of system development we have developed our own controlling model by means of combining theoretical and empirical approaches on the basis of practical experience. This short report provides a synthesis of the results obtained with various research methods to date. Out of the factors of competitiveness, we would like to highlight controlling, as we analyse its implementation opportunities in the SME sector, primarily among small enterprises.

### **3. The Outcome of the Research: Controlling Management Model**

Apart from summarising practical and theoretical research the study was also motivated by the aim of providing undergraduate students involved in higher education training with a course-book, which relies on a wide spectre of methodological experience and easy to use. The purpose of the study was also to re-evaluate the approach to controlling on a nationwide scale and to contribute to the development of science.

Controlling

- is strictly and primarily practice-oriented
- in its system a priority prevails and is outcome-oriented
- has an approach focusing on management
- it is theoretically rooted in management practice
- coordination and information system embodies its main function
- the development of its concept and function is centred on managerial functions

Empirical studies as well as theoretical research (based on technical literature) prove that controlling includes planning, co-ordination and supervisory functions, and de facto clues suggest that this also plays a role in management. The significance of the influence of controlling in the area of organisation is still not verified. The development from company management model towards management model indicates that controlling as an integrated management function will develop in the direction of the model outlined in the figure.

This theoretical approach may be verified judging from the outcome of theoretical research, too.

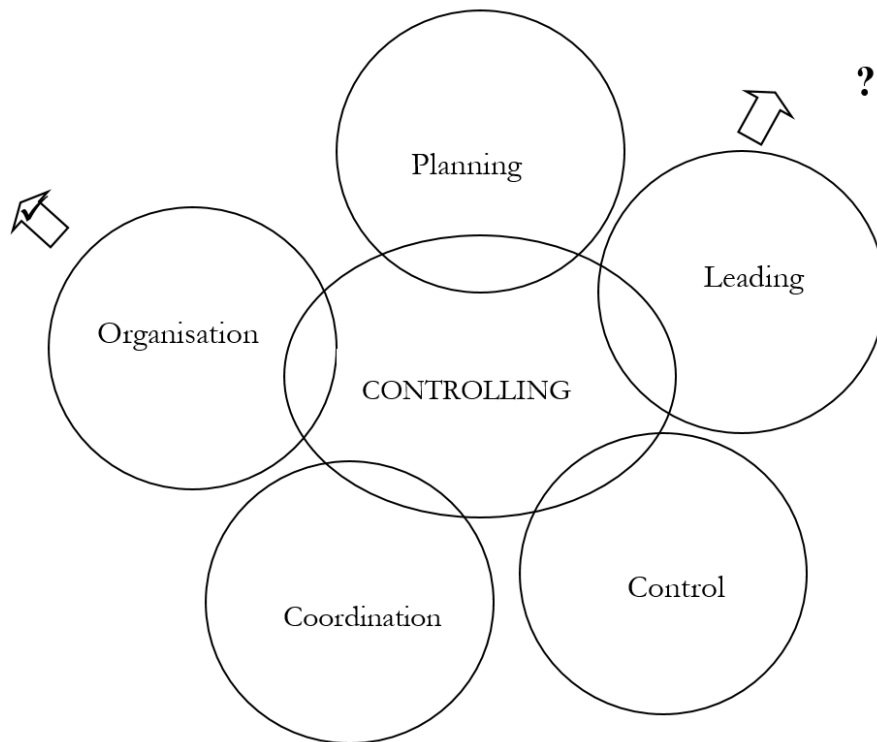


Fig. 1. Controlling as a managerial function

Controlling is a managerial function based on information management, a managerial tool to plan, supervise, analyse and control events in a company.

Controlling is a system which serves to support company management with coordination and information. It is implemented via planning, supervising and improving alternative strategies for company management.

The two-fold interpretation of the concept of controlling:

- function determined by information management
- a managerial device for planning, supervising analysing and controlling company efficiency.

Henry Fayol classified company activities into six groups and he devoted separate studies to examining managerial functions (planning, organization, direct management, co-ordination, supervision).

The controlling system as a managerial function affects basic activities of the organisation (company). According to the analysis of the integrated operation of logistic and controlling systems it can be presumed that most important factor in

information management is the relationship between logistics costs and logistics output.

Approaching logistics-controlling on a strategic level is an important factor determining competitiveness on the market.

It is of crucial importance to build its sets of objectives and conditions in harmony with company strategy, which will determine the competitiveness of the product (or service).

In company management competitive criteria for cutting costs should be measured in its complexity according to the competitive value of the product (or service).

The essence of up-to-date logistics- controlling management is the integrated handling of the material process and the development of the organisation and information system.

#### **4. Controlling as Factor of Competitiveness in SME**

One of the factors of competitiveness is cost-efficiency, which is required for real processes, as well as planning and controlling of costs. [5]

These functions form a regularly repeated closed system, considered a sub-system of management, and discussed as a management function on its own in the technical literature.

In the controlling system, cost controlling is very important, which is suitable to increase cost-efficiency and thus, competitiveness.

Empirical studies and theoretical and literary researches have proved that controlling contains all the managerial functions: planning, organization, supervision, coordination and control.

Empirical signs indicate that it also plays an important role in management. Development from an economic operation model to the management model indicates that controlling, an integrated management function, develops towards a new model.

On the basis of the results of empirical researches, the theoretical approach can be assumed. Thus controlling is:

- strictly and mainly practice-based,
- dominated by profit-orientation concerning its objectives,
- has an economic operation approach,
- its theoretical basis originates from economic operation, too, and
- its main functions are coordination and an information system.

As it was indicated above, the controlling function is present in 20% of the analysed enterprises. However, it does not mean that these enterprises have created a separate controller's position, or controlling organisation.

A closer study of individual cases has indicated that the manager of an enterprise requires regular generation and availability of information relating to the controlling area. Most often the information is generated by the accountant or business consultant of the enterprise, and the controlling report, i.e. the inclusion of the information in a system and its interpretation – is also prepared with external assistance. It happens very rarely that the entrepreneur's own administration prepares the information and the controlling report is prepared by a competent expert – controller – or the manager himself.

Controlling is a professionally demanding function, involving an expenditure which yield of which is not always seen directly by the entrepreneur. This explains that 40% of a sample of 400 SME-s has a controlling function, and 20% plans to implement a controlling function in their enterprise within the near future. At the same time, the personal interviews have also revealed that the managers of such enterprises consider themselves rather cost-sensitive and economic persons, who do everything to increase cost-efficiency and competitiveness. SME managers think that controlling functions in management system can help them to do competitive enterprise.

Such a low level of the presence of the controlling function among the SME-s can be explained best with the fact that the qualifications of the managers of the analysed enterprises show a rather varying picture: 30% of the managers have diploma and 42% secondary qualification.

Assuming that each SME manager with a diploma knows exactly what controlling is and intends to apply it too the proportion of existing and planned controlling functions is close to 30%.

Although attempts for cost-efficiency can be expected from managers with secondary or lower qualifications and it can actually be observed, but the solution, i.e. application of a controlling system or function does not even occur to them without the relevant knowledge or information.

Managers of successful SME-s practice the controlling function in our management system.

Thus, the presence of a need does not point to controlling, but to a management system that somehow contains both the controlling function and system.

## **Conclusions**

The basic aim of the research to be outlined was to reveal the significance of real and information process analysis of operating controlling systems introduced in

domestic entrepreneurial practice, and also to present the features commonly shared by enterprises as well as those that can be considered unique.

The accomplishment of controlling as a managerial function implies that it appears in management systems integrated with the other functions. Individual classical management functions may be conceived as integrated, professional or individual on the level of the manager. Professional and individual managerial functions have not been integrated so far, thus controlling function is realised independent of those.

The sphere of activity available for enterprise management is determined by the ever-increasing competition, changing realization and buying markets and the tight possibilities of potential applications. The art of management lies in the skills to guarantee that the enterprise may persist and sustain its viability. Ever since market economy came into being Hungarian SME-s have been forced to continually utilise their resources rationally. Controlling is proven to be an efficient method, which is to provide key information for the management at the right moment, concerning the status of environment and inside processes. In general, building up a controlling system, toolset and organisation is implementing controlling and, at the same time, competitiveness.

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