

Difficulties of introducing controlling approach and methodology in small and middle sized company environment

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The basis of effective leading of an organization managed in an up-to-date way is that the leadership is able to ensure the agreement among the environment of the organization, its strategy and its internal function (structure). Controlling is a well-acquitted vehicle of implementing this leadership related task.

With its methodology and information sharing, controlling system supports the management's long-term strategic, mid-term and short-term operative planning activities, forecasting results, costs and prices, as well as its functions for innovation. Besides planning, the major task of controlling is to promote, – with processing the online data of the production and operation, – the control of economic processes, analytical and in-time intervention and feedback related tasks.

The topic of this present paper deals with the difficulties of spreading, introducing the approach and methodology of controlling based management into the organizational culture of a small and middle sized company.

INTRODUCTION

Application of controlling in the practice of administration of finances in various organizations (both for profit and non-profit organizations) has indisputably wide-spread worldwide and it has been implemented by international companies and organizations. No experts of economy deny the importance of controlling. However, the opinions about term itself and the approach of its nature differ from one another.

There are two approaches that are opposed to one another: the approach organization and management science and that of classic finance and accountancy. The first approach regards the essence of controlling as part of management science, which is a decision driven method, and it attaches primary importance to planning and realization of target figures. Therefore controlling applied by them with the information they possess keeps the management in competition with a decision preparing profile. According to the system-based approach, controlling is part of the system of an organization (management of a company, integrated subsystem of a decision-driven management); on the other hand, it is a system with its own targets and it builds up of processes.

Experts of classic accountancy finance define controlling as the development of accounting and financial processes towards management accountancy, i.e. they approach it to account settlement techniques. In this case, it is identified

with financial controlling which approach narrows down controlling system into planning and settlement of financial processes and it does not pay adequate attention to elements of management methodology [1, 2, 3].

In our view, the essence of the notion of controlling system is that controlling provides such up to date data in a plain form for what the manager really need to be able to make the appropriate decisions. Controlling coordinates planning, control, as well as information sharing; in other words controlling is a tool which helps the manager to be able to manage a company target-orientedly, and react upon changes promptly. Naturally controlling task, defined this way, can only function effectively in a responsible and decision-centric planning and settlement system [7]. The topic of this present paper deals with the difficulties of spreading, introducing the approach and methodology of controlling based management into an organizational culture of a small and middle sized company. After defining the basic hypothesis, we introduce the expected advantages and difficulties of implementation of the controlling-based business operation in terms of small sized company environment.

BASIC HYPOTHESIS

Our hypothesis is based on that the manager is able to make better decisions, as well as increase success of the company with practicing the key concepts and approaches of controlling methodology, management accountancy. The below mentioned factors of our hypothesis require further explanations:

Management accountancy and controlling methodology: These notions mean the management information that are not connected directly to the compulsory financial reports required by the law but they are clusters of tailor made information with characteristic features of the industry which creates relevant information with the key notions of management accountancy. Compulsory reporting required by the law (making financial report, balance sheet, profit and loss statement, cash flow, accounting policy) primarily establishes transparency and comparability. In contrast to this, management accountancy deals with sharing the altering and fix costs with the use of alternative cost monetization, notion of coverage and concentration on the basis of coverage creation capability including such elements that supports a more effective internal decision making process. Holistic practices of controlling methodologies measure performance not only by financial standpoints but also regarding positions to deal, business sector competition,

customer satisfaction, learning organization and they remunerate or sanction accordingly [6, 7].

The ability to make better decisions: It is a competence with which the decision maker is able to optimize in long term and make the appropriate decision accordingly. A "good" decision in this way is a decision which keeps in mind all the success factors which has effect on the company (both monetary and non-monetary factors) and it is optimized according to the pos-sessed information of the certain situation and moment.

Success of the Company: In our present study, the success of the company is defined by the maximization of Rappaport's shareholder value [4].

ROOT PROBLEM

The root problem is the phenomenon where in non large-sized company sector the decision making process, in many cases, is not based on information provided by managerial accounting but often it is made in an ad hoc manner, non-standardized (which consequently cannot be controlled and repeated) methods, often not fully documented pieces of information.

Characteristics of non large-sized sector are the following:

- Chimney effect: Due to the not appropriately designed or missing organizational structures, the decision making and information processing is carried out by one person which weigh groundless load on the senior management and it leads to slowing down of company processes.
- Operative overweight: Dealing with operative problems consumes majority of the managers' time and they do not have time to prepare strategic decisions, make these decisions, and use of strategy creating and executorial methods. Strategies often only exist in the mind, and however it is supported by up-to-date industry special information and previous experiences, it is not evaluated according to a term of methodology and accurate schedules, determination of the action plans is missing, which would en-able the achievement of the target state in the future.
- Lack of knowledge of controlling approaches and systems result in an ineffective decision making.
- Tight financial and human resources.
- Workload, cyclical unsteadiness of demand for capital, planning difficulties, demand for revenue and resources, difference between the peak-load and basic-load. This characteristic is often unnecessary, leads to extension of insufficiently exploit capacities, and a characteristic formula is that lack of resources fails to generate the revenue.

POSSIBLE ROLE OF CONTROLLING IN NON LARGE SIZED COMPANY SECTOR

For an enterprise to be successful, it is important to have a well-weighted planning, however, it is even more important

for the organization to be able to react on time in case the plans are not realized or something does not go according to the plans. For this, it is required of the decision maker to see up to date performance of the company, shaping of its financial position for which introducing of controlling is inevitable.

In our view, controlling is a field which is destined for planning in a manner that it conveys all the necessary information to the decision makers in a way of being clear and interpretable, and being as detailed as it is necessary. In case of large sized companies, complex target system, individually developed systems as well as controlling modules of company management systems are applied and an individual organizational unit deals with providing leadership information.

In terms of small sized enterprises these controlling tasks are carried out by the manager, who is in most cases the owner of the enterprise, intuitively with the simplest calculations reviewing the accounting figures. It is proved to be insufficient in terms of small sized companies as the task outgrows the possibilities of the manager as it simply consumes too much time, while he or she has numerous other tasks to fulfill.

Based on previous surveys, 70% of small sized enterprises do not adapt controlling or any software applications with controlling options, while the same survey finds strong correlation between the sums allocated for controlling and pre-tax profit, even when the sum allocated is under HUF 50k.

POSSIBLE BENEFITS OF CONTROLLING

Controlling can provide support in the below mentioned areas for enterprises in non large sized company sectors:

- Finding the cost cutting and revenue increasing possibilities
- Identifying those cost factors on which the enterprise spend the most
- Exploiting labor and financial resources appropriately
- Supervise, appraise employees and their work
- Selecting the most suitable strategy for development
- Increasing results
- Drawing attention to the differentiation of plans therefore the manager is able to react on time
- Providing information instead of data in order to make it possible for the manager to make well-grounded decisions

DIFFICULTIES OF INTRODUCING CONTROLLING SYSTEMS AND ITS PRACTICAL EXPERIENCES

We gained our practical experience among others at the Austrian owned Regam Ltd. where we carried out the development and introduction of a controlling system. Besides, after an appropriate demand survey, a controlling system

was introduced at BFI Felnőttképzési Nonprofit Kft. taking into account the example of the Austrian ownership.

Below, we will present those factors which impede the penetration of controlling systems in non large sized company sector.

Absence of Strategic Thinking

Companies do not usually possess written strategies therefore they cannot define those projects, measures which drive the company to the desired future state. They often do not have a clear view of what that future state is. The basic operation targets of a company are defined by practical aspects according to which, the task of the company is to have enough income potential to cover operative costs (payroll expenses, material cost) and to be profitable for the circle of ownership. No one talks about definition of the operational target of the company which may lead to considering topics (and in the long run, exploiting practical and everyday opportunities) such as: maximization of shareholder value, social responsibility, information asymmetry and conflict of interest between management and the circle of ownership (regarding non large sized companies it is often the same), maximization of company value.

Documentation shortcomings

Administration shortcomings and sufficient accuracy is a common problem. Numerous factors can only be estimated, there are no appropriately detailed, unfolded cost and revenue reports available, furthermore the available reports are not even always up to date. The inaccurate figures may distort the picture of company results as well as that of the work of individual employees; consequently, lead to wrong decisions.

There is another common phenomenon namely, the defined and kept up-to-date strategies (company and functionally detailed), action plans, project documents, carrier plans and HR documentations, work regulations are also absent. The existence of code of ethics and CSR documentation is rather rare in the mentioned company segment.

Deficit in Control and Distrust

A common problem is the control of the employees' work; either we examine this factor in terms of quality or security. Incentive schemes cannot be designed in case of lack of effective work control which would really contribute to the development and success of the individual.

The phenomenon of individual profit maximization can be seen in this sector, due to the lack of planned carrier paths, and the low level of wages. As a result of this the costs of the control for management (and the circle of ownership) increases which also results increase in transactional cost damaging the position in the market and the effectiveness. In general sense, this phenomenon leads to distrust which damages the company culture and also increases labor force fluctuation.

Unsatisfactory time management

Constant operative overload can not only be experienced due to lack of organizational structures but due to the absence of time management as well. If a company or department does not have enough time, it definitely shows that the reaction time and flexibility of the company is unsatisfactory, but it can also show the ineffective share of duties and responsibilities, which is not in harmony with the available competences.

Capital deficit

Capital deficit can prevent competitive wage development; here we mean competitiveness not only in national but continental level. Lower wages increase the competitiveness of the products and services, yet only in short term. In long term, however, lower wage level results stagnation in development of the labor force in quality which damages the quality and competitiveness of products and services.

Capital deficit also damages the standards of working environment and the level of technology as companies only implement supplementary investments; there are no funds for expanding developments neither for the increase of the returns to scale.

Capital deficit can be decreased by changes towards product and service portfolio with a high benefit ratio but the condition of such measures is an existing controlling system.

Deficit in Strategic Timeframe

Short term thinking and optimization is typical in the sector due to capital deficit, distrust, planning uncertainties and changing regulatory environment. In long term it sets back the shaping of sustainable and profitable companies. Calm and previsible economic environment is the basis of shaping stable and strong small sized enterprises.

Absence of Project Approach

Companies with constant time and capital deficit that do not possess written and periodically supervised strategy, do not pay adequate attention to the projects which may contribute to the advancement of the firm. They implement projects that are forced by the regulatory environment to fulfill legal liabilities.

TYPICAL PROBLEMS AND POSSIBLE RESPONSES

Below, there are some project experiences we gained; we outline some questions and provide possible solutions to the problems arose.

We gained these project experiences at Schönherz Iskolaszövetkezet (Schönherz School Association) where implementation of controlling process and system, demand survey, audit of processes in the school association, definition of management information, definition of key performance indicators, development of the applied methodology and controlling system, its introduction and instruction has

taken place. On the other hand, at Derra Láng Ltd., controlling system of a small sized enterprise has been developed, introduced and instructed.

- "The company has been growing, I have more revenue as oppose to this my profit is the same or may even be less."

It can be seen from the variation of cost centers and cost units which areas should receive more and which area may receive less attention.

- "An enterprise needs a great deal of administration, how should I pay attention to the operation at the same time?"
"I cannot always be next to my employees, how should I know that they do their job properly or they just doing something?"

Key Performance Indicators show who does his or her job properly and who should be paid more attention to.

- "Financial processes are not transparent, reports are complicated, we get lost in the details" Controlling system only shows the relevant pieces of information and presents the results graphically to ease the task of decision maker.

Plasticity and speed of results are the most significant success factors in controlling projects, which are not implemented in large-sized company sectors. Plasticity means that the manager/owner expects prompt financial results and they only tend to implement a project in case of cost cut-backs or growth of revenue [5]. It cannot be guaranteed in every case as it is time consuming to change processes, rearrange portfolio elements, therefore the results often cannot be seen promptly, yet financial results can be realized only after months. However, it should not be forgotten that a reliable and properly working (and used) controlling system establish bases to future success and development of the company, extending the period of its profit making ability, which without a controlling system, would be shorter.

MANAGING CONTROLLING PROJECTS IN PRACTICE

The below described sections show the introduction of a typical controlling project in non large sized sector.

- **Preparation phase:** In this phase, it is required to define the targets of the project and the expected results in accordance with the expectation of the owner/manager: the milestones and criteria of success must be accurately defined to better contribute to the satisfaction of each party in the event of a successful project. The provided documents must be processed and the current state must be measured.
- **Implementation phase:** At this phase, controlling system is shaped with the provision that the input data circle, origin and storing, responsible person, frequency, definition of the expected disposability are present; then business and senior management data information is gained with the help of business logic (which is based on coverage recognition, fixed expenditure and its division on a variable basis).
- **Adjustment and follow-up:** This phase is perhaps the most important section as it establishes the acceptability of the controlling system, its real value in use, securing the results in terms of financial advantages.

CONCLUSION

Practical experiences unanimously prove that non large sized company managers can manage their enterprises more effectively with the help of appropriately designed controlling systems which are built on a well-designed managerial accounting. Controlling functions ensure them to follow the entire business activity. Time based processes tracked down, dynamic, real time true to facts information is provided for the manager to help make decisions. Controlling aims to maximally meet managers' needs; to be both future and decision orientated. With the application of these methods a conscious company leadership can be implemented.

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