

HALF A CENTURY OF PROGRESS IN CONTROLLING

Péter BAGDÁCS

Institute of Accounting and Finance, Faculty of Economics and Business, University of Debrecen, Debrecen, Hungary

bagdacs.peter@gmail.com

Abstract: *The science of controlling has made significant advances in recent decades. Managerial accounting, linked to financial accounting, has evolved to bring together the accounting and planning of costs and results, permeating the entire activity of the company, from finance to production, sales, marketing, human resources processes, satisfying the growing information needs of management. In the development of controlling, a distinction can be made between trends specific to the Anglo-Saxon and German-speaking areas. The basic difference is that the Anglo-Saxon approach sees controlling as an integral part of management, with the main task of helping to allocate resources efficiently. The German approach, on the other hand, sees controlling as an independent information-producing tool, a separate organisational unit, on the basis of which the various planning and control processes of management are implemented. Common to both approaches is that controlling is not limited to operational management areas but is increasingly extended to strategic levels, thus helping to improve corporate performance effectively.*

Keywords: controlling, financial accounting, management accounting, management

JEL Classification: G12, G15, G32

1. Literature review

The increasingly global economic environment inevitably goes hand in hand with the growing information needs of business organisations. This demand for information is reflected both at the operational and strategic levels (Nagy, 2016; Lakatos et al., 2020). The availability of information of sufficient quality, quantity and timeliness is essential at all hierarchical levels, for planning and controlling the efficiency of related activities and processes. The most important task of controlling is to ensure that the right amount and quality of up-to-date information is available at the right place and time to make the right decisions.

Initially, the growing need for information and its satisfaction was mainly related to the field of financial accounting, then the field of management accounting developed, gaining ground in the field of management and organisation science, which inevitably meant the development of controlling methodology and procedures, making management decision support even more effective.

2. Key milestones in the development of controlling

As already mentioned, most of the information needed for controlling comes from the accounting information system, and it is therefore of particular importance to mention the scientific work *Summa de Arithmetica, Geometria, Proportioni et Propotionalita*, published in 1494 by Luca Bartolomeo de Pacioli, the mathematician who laid the foundations of double-entry bookkeeping and thus of financial accounting. Prior to this, accounting had no established methodology and was in fact simply the activity of recording economic events (Baricz - Róth, 1994).

The next major milestone in the history of accounting dates back to the 18th century, when theories of accounts appeared. By the end of this century, controlling had appeared and the tasks of the controller were defined. Already in the US Constitution of 1776, the controller's function was defined, which was to supervise the expenditures and revenues of the public administration, with an eye to economy (Horváth, 2003).

Then, at the beginning of the 19th century, accounting theories appeared, which contained the detailed rules for drawing up the accounting balance sheet, and at the same time, significant progress was made in the field of controlling, and the corporate controlling of today was developed in the United States of America following the Industrial Revolution. This period saw the emergence of divisional organisations, characterised by management problems, which corporate controlling was designed to solve by breaking down corporate activities into parts, making coordination, management and control easier (Körmendi - Tóth, 1998). However, controlling also facilitated aggregation through the dimension of money. The real spread of corporate controlling in the United States of America was linked to the emerging economic crises of the late 19th and early 20th century. In Western Europe, the development of the controlling discipline gained momentum and its application in the corporate sector began to spread in the mid-20th century, starting in the 1950s, and in our country some three decades later, in the 1980s (Zéman, 2016).

In the history of the development of controlling, Mészáros (1995) identified four defining characteristics:

- diffusion in different corporate areas;
- sector-specific controlling systems;
- the separation of operational and strategic controlling;
- different developmental characteristics in the Anglo-Saxon and German areas.

Starting from the financial area, controlling affects all areas of the company, including purchasing, production, logistics, sales, marketing, R&D, and human resource management, and sector-specific controlling systems have also developed, for example, the controlling system of a bank and that of a trading company have different characteristics (Kalmár et al., 2015). Besides function-oriented and sector-specific characteristics, we have to distinguish between operational and strategic controlling, which developed later. Operational controlling typically provides an adequate supply of information in a more predictable environment, but the dynamic changes in the economic environment have shifted the focus to strategic controlling. Controlling has different developmental characteristics in the Anglo-Saxon and German regions. In the United States of America, for example, strategic controlling came to the fore later, whereas in the German-speaking world it became more prominent in the 1980s, and in this respect, there is of course a continuous convergence between the two language areas, with strategic controlling becoming increasingly important in the Anglo-Saxon language area as well (Hágen - Méhesné, 2014). The other fundamental difference relates to the position of controlling within the organisational framework, the Anglo-Saxon approach sees controlling as an integral part of management, while the German approach sees controlling as an information-producing tool, a separate organisational unit that allows the manager to carry out various planning and control processes (Hanyecz, 2011). What they have in common, however, is that both approaches see controlling as a key to successful management, helping management to ensure that the company allocates available resources efficiently in production and other activities. Documenting plan-fact data, monitoring company processes and identifying the causes of discrepancies between plan and fact data are of paramount importance (Böcskei et al., 2015).

As mentioned earlier, in Hungary, the use of controlling in companies spread in the 1980s, when the first controlling systems were introduced by large companies with divisional organisational development and management problems. In addition to the management problems that arose, the increasing competition due to the continuous opening of markets and the emergence of multinational companies on the Hungarian market made it necessary to introduce corporate controlling systems, and the Hungarian subsidiaries of multinational

companies naturally also applied the controlling system of their parent company. In Hungary, the German approach is the dominant one, still typically isolated within the organisational framework (Bodnár - Vida, 2008). However, it is worth highlighting that the IGC (International Group of Controlling) modified the definition of the mission of controlling at its meeting in January 2013, erasing the differences between the Anglo-Saxon and the German approach, focusing on the goal of improving organisational performance (Blumné - Zéman, 2014).

3. The concept of controlling

The term "controlling" is derived from the English verb "to control", which means to direct, regulate, supervise, control. Many people still identify controlling in this way, focusing on its control function, but it should be stressed that controlling is much more than this (Schmalen, 2002).

The conceptual definition of controlling is very diverse. Several definitions emphasise the role of the controlling navigator, illustrating the role of the controller on board a company's ship as the pilot or, in other words, the controller as the autopilot, who, using various planning and control methods supported by calculations, supports the actions of the company's management with the right quality and quantity of up-to-date information to make quick and appropriate decisions, thus helping to steer the company towards its objectives (Horváth, 1993).

Schmalen's definition of controlling does not emphasise the feedback function, but stresses the anticipatory role of controlling, i.e. in his formulation, one of the main tasks of controlling is to identify and draw the attention of managers to disturbing factors affecting operations and to force appropriate responses (Schmalen, 2002). Common to these definitions is the identification of the controller as a corporate advisor and the emphasis on the very close relationship between management and controlling. The main differences between the definitions of controlling are related to its location within the organisational framework, in the Anglo-Saxon world, the so-called management control concept has become widespread, being an integral part of management. These definitions tend to emphasise controlling's adaptation to the organisation and its environment. In contrast, the German understanding of controlling is that it is the creation of a system of tools to support management in making the right decisions and to support results-oriented management (Horváth, 1993). It can be seen that the difference between the two understandings is more conceptual and less substantive.

4. The system and process of controlling

The complexity of controlling makes it essential to link it at the systemic level. This linkage supports the understanding and analysis of complex business processes, clearly showing, for example, the logical relationship between planning, control and information provision, as highlighted by Chikan (2003).

The controlling system is present as a coordinating system in corporate operations, thus creating coherence in the context of planning, control and information provision. Figure 1 shows the location of the controlling system within the organisation.

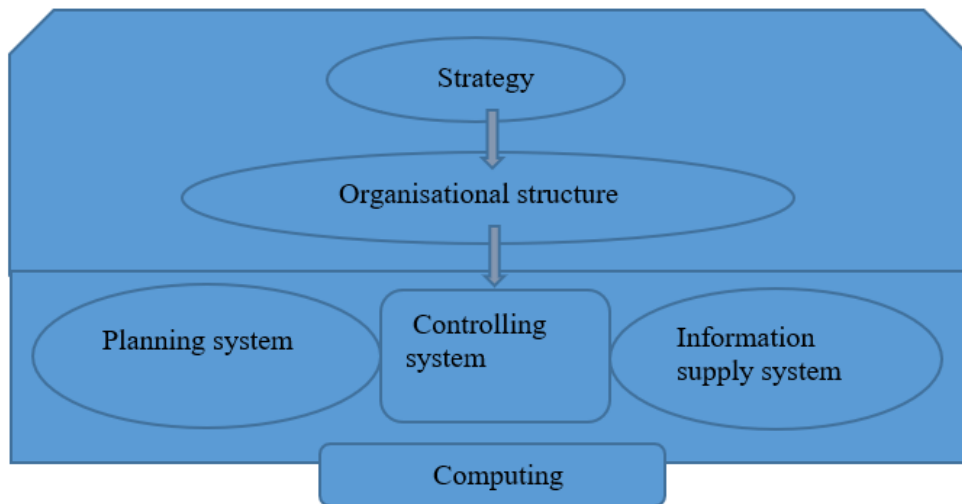


Figure 1: Location of the controlling system within the organisation
Source: Horváth and Partner (1997)

As illustrated in Figure 1, the controlling system links the strategic, tactical and operational planning system within the organisational framework to the information supply system, which includes management accounting and the reporting system supported by financial accounting. Figure 1 also illustrates that the controlling system provides the tools for proper coordination and also means the performance of specific tasks. With regard to the tools of controlling, it should be emphasised that controlling focuses on improving the economic performance of the company and thus develops its tools. Its main information base is the accounting system itself, using financial accounting information to produce management accounting information (Körmendi - Tóth, 1998). Controlling relies heavily on the computer background. The supporting software is typically a computerised information system, ERP (Enterprise Resource Planning). These computerised information systems manage the accounts for all company processes in a uniform, integrated way, thus providing a huge information base for controlling.

A controlling system is a kind of circular flow of activities, as illustrated in Figure 2.

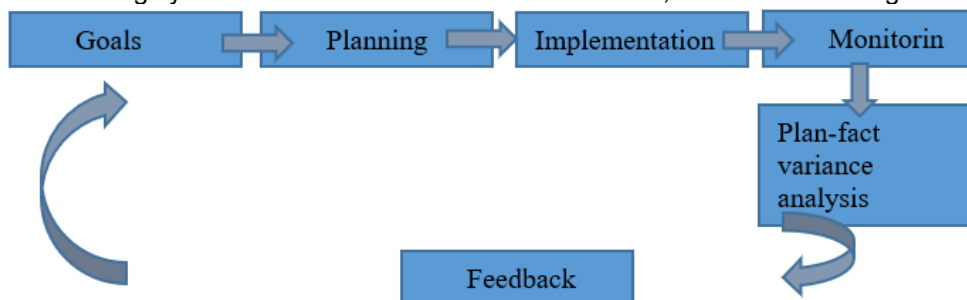


Figure 2: Location of the controlling system within the organisation
Source: (Schmalen, 2002)

Schmalen's diagram is an excellent illustration of the process nature of controlling. The basis of planning is the setting of objectives, and controlling's task is to set appropriate, achievable objectives. Controlling is one of the key elements of the planning function, playing a major role in the methodological underpinning and professional monitoring, coordinating the various sections of the plans drawn up and presenting the plans to senior management at

operational, tactical and strategic level. Of course, the role of controlling is not only important during the planning phase, but also during the implementation of the plans, using appropriate performance indicators to monitor the success of the plans, analyse the deviations between the plans and the facts, and, if necessary, make recommendations for the necessary corrections and provide a kind of feedback (Chikán, 2003).

In addition to these basic functions, controllers have the important task of learning about new methods, evaluating them and examining the possibility of adapting them, and possibly introducing them, thereby improving the controlling organisation (Hahn, 2005). Of course, it is not advisable to set up a separate controlling organisation for all sizes of company, but it may be necessary for medium-sized and large companies because of the complexity of the organisational structure and the complexity of the activities.

5. Conclusions

The field of controlling has developed steadily over the last decades, responding to the challenges of the industrial revolution and globalisation. In today's dynamically changing economic environment, successful operation is inconceivable without the application of basic controlling functions, and in the case of larger companies, the operation of a separate controlling organisation within the company's operations is justified. However, for smaller companies, the fact that the same person is responsible for the managerial and controlling functions within the organisation often causes problems, so that the true coordinating role of controlling cannot be achieved. However, a well-designed accounting and ERP system, and the controlling system based on it, is not a guarantee of success, it is not a competitive advantage in itself, it is essential for the company to produce the right product or service for the market through an efficient production process.

References

1. Baricz R., Róth J. (1994): Könyvviteltan. Aula Kiadó, Budapest, 149 p.
2. Blumné Bán E., Zéman Z. (2014): Controlling a vezetés szolgálatában. Történeti fejlődés, perspektívák. Gazdálkodás- és szervezéstudományi folyóirat, 6 (1-2): 439–447.
3. Bodnár V., Vida G. (2008): Folyamatmenedzsment a gyakorlatban - Árbevétel-növelés és költségcsökkenés tartósan jó folyamatteljesítménnyel. IFUA HORVÁTH & PARTNERS, Budapest, 398 p.
4. Böcskei E., Bács Z., Fenyves V., Tarnóczy T. (2015): Kockázati tényezők lehetséges előrejelzése, a gazdálkodás felelősségének kérdése a számviteli beszámolóból nyerhető adatok tükrében. Controller Info, 3 (3): 7–14.
5. Chikán A. (2003): Vállalatgazdaságtan. Aula Kiadó, Budapest, 314 p.
6. Hahn, A. (2005): Der Controller als Sparringpartner. Manager und Controller als Gespann. ControllerNews, 15 (1): 71–89.
7. Hanyecz L. (2011): A modern vezetői controlling. Saldo Kiadó, Budapest, 291.
8. Hágen I. Zs., Méhesné B. Sz. (2014): A vállalati controlling alkalmazásának jelentősége. Controller Info, 2 (1): 33–38.
9. Horváth P. (1993): Controlling: a sikeres vezetés eszköze. Közgazdasági és Jogi Könyvkiadó, Budapest, 227 p.
10. Horváth P. (2003): A Controller: a vezetés navigátora, Menedzsment Fórum
11. Horváth és Partner (1997): Controlling. Közgazdasági és Jogi Könyvkiadó, 212 p.
12. Kalmár P., Zéman Z., Lukács J. (2015): Bankcontrolling marketingszemléletben – alkalmazott statisztika a controlling szolgálatában. Hitelintézeti Szemle, 14 (4):108–123.
13. Körmendi L., Tóth, A. (1998): Controlling a hazai szervezetek gazdálkodási gyakorlatában. WEKA Szakkönyvtár Kft., Budapest, 272 p.
14. Lakatos V., Béresné Mártha B., Tömöri G. (2020): Controlling módszerek ismerete és alkalmazásuk az Észak-alföldi régió kis- és középvállalkozásainak gyakorlatában. Int. J. Eng. Manag. Sci. 5 (1): 441–452.

15. Mészáros Á. (1995): A controlling sajátosságai a magyar konszern- és holdingszervezetekben. *Vezetéstudomány*, 26 (3): 25–37.
16. Nagy T. (2016): A Lean menedzsment és a controlling kapcsolati rendszere. *Controller Info*, 4 (1): 38–42.
17. Schmalen H. (2002): Általános üzleti gazdaságtan. Axel Springer Budapest Kiadó, Budapest, 870 p.
18. Zéman Z. (2016): A kontrolling fejlődéstörténetének főbb irányzatai. *GAZDASÁG ÉS TÁRSADALOM*, 8 (2): 77–91.