

WHAT IS THE ROLE OF CONTROLLERS AND HOW CAN WE DEVELOPE AN EFFICIENT CONTROLLING SYSTEM?

Diószeginé Zentay Éva

University of Debrecen, zentayevi@eng.unideb.hu

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Abstract: Comparing the organisations operating in different sectors we may state that controlling systems developed at the enterprises and organisations share a large number of common features. This is not by chance as controlling systems have the same basic elements: management oriented accounting, planning, fact-actual figure comparison, audit, and information provision for the management. However, it may also be observed that all the controlling systems are different despite their similarities, and there is no one unique and optimal controlling system suitable for all the enterprises. Several factors must be considered when developing the most suitable controlling system for the enterprise.

INTRODUCTION

Controlling is a well known and long-time successful technique of the management. Its original objective was to continuously inform the management regarding the realisation of the planned objectives or the time proportionate tasks of the different organisational units of the company. That is, controlling contrasted plans with the factual data reflecting over-performance or default in performance. For this reason, the basic plans and their time proportionate tasks were quantified along with the information regarding their realisation. The accordance and the deviations were collected by the company controlling group using modern IT tools and they processed this information into a clear and understandable form for the management of the company.

The primary aim of the controlling function is the accurate and reliable information provision for the management in due course with regard to the position and the continual operation of the company. The reporting system provides information for the different management levels, within the framework of which the information is collected and forwarded to the budget responsible in the appropriate form. The preparation of the report is the task of the accounting department in general. The controller shall provide for

- the proper information,
- in proper detailedness,
- at the due time,
- at the due place and

in the proper form to be at disposal. (Horváth, 1997)

The development of the controlling systems and their implementation within the company management systems may be observed from the end of the eighties in Hungary. The colleagues of the economics department operating as a separate unit in general within the organisation of a company are the predecessors of the controllers of today, as their task was to plan and analyse the performance of the company and the different organisational units and also to monitor their tasks supported by accountancy data, and furthermore, to provide data from their findings. During the era of the political transformation, the environment, the social and macro-economic and legislative condition system of the operation of the companies was characterised by radical changes. The successful operation among market conditions made totally different organisational solutions, management systems and management attitude necessary. An obvious step for the transformation of the company management systems was the introduction of the controlling systems enabling the appropriate allocation of resources and the continual

monitoring of the performance of the organisation. The knowledge transfer deriving from both the foreign companies and the international consulting firms was of significant importance apart from the one deriving from the Hungarian executives acknowledging and applying controlling.

The theory and the practice of controlling are developing parallel supporting one another nowadays. Controlling is expanding towards the public and the non-profit sector from the business sector and the controlling of certain functions and special areas is also becoming more and more effective.

THE FACTORS INFLUENCING THE CONTROLLING SYSTEM

The information systems of the enterprises and organisations are rather varied and complex due to the many entrepreneurial forms, the diverse activities and the various internal and external information needs. A very important element of this complex information system is the controlling information system, which is primarily aimed at the satisfaction of internal needs and the support of the internal management of the enterprise or the organisation. Due to its tasks and function the controlling system is located at the top of the information pyramid. Although the controlling system relates to all areas of the activity, it cannot substitute the other information sub-systems but it builds upon the information sub-systems related to the different areas of the business, the activities and the functions, as it needs to obtain information from these sub-systems for the strategic and operative planning, the plan and actual figure comparison and for the preparation of the different level and time scale management decisions. The efficiency of the operation of the controlling system is significantly influenced by the quality of the information these sub-systems provide for the performance of the controlling function.

The internal peculiarities, facilities of the enterprise and the external environment influence what specific controlling system is developed from the unified controlling elements. These factors influence which controlling partial systems should have a more significant role and how the existing partial systems need to be modified or which concrete controlling tools must be applied. The controlling system of the enterprises and organisations relate to all the areas of the activity performed by the business association, and therefore, it is divided into several parts, the so called controlling partial systems in accordance with the entrepreneurial or organisational functions. These controlling partial systems are connected to one another and they jointly form the controlling system of the enterprise. With respect to the continual changes of the internal and external economic environment, we may observe that the controlling partial systems are developing by the application of newer and newer controlling tools.

The most significant factors influencing the structure and the operation of the controlling system are as follows:

- External environment
- The size of the enterprise
- The character, and the complexity of the performed activity
- The style of the management
- The method of processing the information

THE DEVELOPMENT OF THE CONTROLLING ORGANISATION

The development and the later efficient operation of the controlling system significantly depends on the form the enterprise or the organisation performs the controlling tasks, and on the personal characters and professional preparedness of the persons performing these tasks.

Many derive the interpretation of the expression of controlling from the verb 'to control'. According to the organisational theory approach (Ouchi, 1980) organisations are characterised by three different types of control, market, bureaucratic and clan control. The former two have the common feature of having the control from outside, whereas in case of the third one control is from the inside, that is, the emphasis is based on culture and personal commitment. However, in general, it is typical of enterprises that the so called self-control does not succeed, and therefore, the aspect that everyone shall be responsible for the controlling of their own area does not succeed either. For this reason most of the enterprises create a separate controlling organisation, the position of the controller in order to perform the controlling tasks, or they appoint a colleague who is responsible for the performance of the controlling tasks.

BUSINESS PROCEDURES CONCERNED AND THE CONTROLLING ORGANISATION

The development of the controlling system slightly changes the previous business procedures developed at the companies. Due to the introduction of the controlling system tasks and even processes may distinguish and new task and processes may take their place, or may transform (e.g. business reorganisation). The business procedures consist of activities, for the performance of which positions may be appointed. The significant part of the activities is performed by the colleagues of the controlling organisation, by the controllers.

In compliance with the controlling tools the business procedures concerned are generally the followings:

1. Planning
 - Strategic planning
 - Mid-term business planning
 - Annual operative planning
 - Liquidity planning
2. Reporting
 - Reporting
 - Operation of a reporting (information) system
3. Management accounting
 - Maintenance of basic data
 - Actual cost collection - statement
 - Closing
4. Investment efficiency calculations
 - applied methods

Controllers have an important role within the development and the continual operation of the controlling system. The task of the controller is to support the

management by different business efficiency and controlling tools. Controllers provide a service for the management of the company and for the different level executives.

They should also perform the consulting and moderating tasks beside the development of the controlling system and the connected additional systems. Controllers do not control and call anyone to account. As these belong to those tasks of the executives, which may not be delegated. The management may only entrust controllers to ensure the information basis for control and account, that is, to compile the reports and to analyse and interpret those. Therefore, controlling is not responsible for the decisions passed but for the quality and timeliness of the information provided.

The responsibilities of the controllers of the company are as follows:

- Planning responsibility, which means that controlling should provide for the fact that the planning system should be full (from strategic to operation level), the planning system should be self-consistent, and that the executive officers of the company should really plan, and that these plans should be appropriate in terms of quality.
- Information system responsibility, which results in the fact that controllers are responsible for the selection and the development of the systems ensuring the registration of the resources on utilisation value.
- Regulatory responsibility, which ensures that the planning, reporting and management accounting processes of the organisation are clearly regulated.

REQUIREMENTS TOWARDS CONTROLLERS

Controlling as a theory is only operable and is necessary for the success of a given company in case the management or the ownership of the company feels a need for it as they regard it useful in order to have a fair view of the economic processes of the company, and in case the person, who 'operates' the function fills the theory with content and is suitable to perform his task. Naturally, the suitability of the controller considerably depends on the person, that is, it primarily depends on the preparedness, the personality and the human characters of the person performing the task; however, the economic-social environment where the controller arrives has a great role as well. It is important that the management of the given organisation should define its requirements towards the controlling organisation and the controller.

It is difficult to decide what personal qualities are necessary for the performance of the tasks of the controller. The determined educational background, the professional knowledge, and practical experience are necessary to fill a position, but more is required for suitability.

The personality is of high priority, as only such persons may perform their tasks with success, who possess the following personal qualities:

- *Conflict management*: Controllers are in a continual conflict situation due to their tasks and function. They reveal the problems within the management and the operation, which may hurt the interests of the parties concerned, and therefore, it is important to manage conflicts appropriately. It is the interest of the company as well that the contradictions, the hidden losses and the economic factors jeopardising the operation are revealed and even more that they are distinguished.
- *Creativity*: The decision-preparation task often requires that controllers should depart from the usual solutions and to create real decision situations within their recommendations for the solution. The variety of the solutions should be interpreted by creativity.

- *Accuracy*: It is important that the authenticity of the information provided by the controllers, and the correctness of their methods and analyses should not be doubted.
- *Openness*: The changes of the economic environment and technologies have accelerated, the world has globalised, and therefore, they must be open to changes.
- *Discernment and composition*: As controllers work with a large amount of numbers and data, it is extremely important that they should separate the important from the non-important to appropriately select from among the information at their disposal. They should clearly and unambiguously compose their position considering the natural barriers of the decision makers. Their reports should be well structured and brief.
- *Awareness of responsibility*: The responsibility of the decision as I have mentioned is not of the advisors but for the decision makers; however, it is still important that controllers have the appropriate awareness of responsibility. This is essential so that controllers stay reliable and credible persons for their employers.
- *Objectivity*: Of course, controllers should be objective compared to the condition, and they should provide the management with real alternatives.
- *Reliability*: Controllers often obtain confidential information, corporate business secrets during their work, which may be extremely valuable for the outsiders or the competitors. Controllers should ensure the management and the owners that they shall never abuse the obtained confidential information.

THE MAIN REQUIREMENTS TOWARDS A CONTROLLER

- *Qualification*: Generally higher economic education (university of economics, college of finance and accounting) is necessary for filling the position of the controller. Many say that in certain cases the special sectoral knowledge and appropriate economic affinity may make a given person more suitable for performing the controlling tasks than a qualification from higher education without knowing the given field. In my opinion, only the appropriate economic qualification may be the basis of the effective work of the controller.
- *Experience*: Opinions differ in this issue as well. There are enterprises, which prefer employing career starters or persons with an experience of 2-3 years. The reason for this is that the executives of the companies put great emphasis on the susceptibility and the openness to new tools and methods. Whereas others put greater emphasis on the controlling experience, which may be obtained during the years. There are some economic regularities, which are true of all enterprises any which no business association may avoid. Controllers should have the professional experience, by the help of which they may separate the rightful and the invented arguments and aspects, and may develop an assessing system, which considers the general and the special conditions supported professionally to the appropriate extent.
- *Knowledge*: There is some special knowledge, which is more and more integrated within the requirements towards the controllers, and without which a controller may not be suitable for the performance of their task. Such knowledge is for example IT, which is necessary in terms of technology, as nowadays no one may become a controller, who cannot use word processors or spreadsheet managers (Word, Excel), although the use of higher level applications is becoming a requirement as well (e.g. OLAP) Companies do not have the time to wait for the controlling report so much as if they were prepared traditionally, and they do not have the resources to keep the staff to use the aforementioned tools instead of the controller. IT knowledge is important in case of the creation of the management information system as well. Basic system development and system technology knowledge is likewise important for the substantial controller's needs and determinations towards the management information system. The above may

ensure that the management information system is developed as an optimal marriage of the real economic needs and the real technological opportunities. The second special knowledge is legal knowledge, which is primarily determinant with respect to economic statutory provisions. And finally, language competence is another issue, which is likewise essential in case of all senior level functions.

The place and the role of the controller in the management and their cooperation with the management

In optimal, but rather in theoretical cases the controller is a member of the senior management as an internal advisor, that is, the controller is part of the decision making process as the preparer of the decisions, although they do not take part in the effective decision making. However, corporate practice shows that this solution is rather rare. The main reason for this is that the majority of the companies try to minimise the number of the senior executives in order to maintain an effective decision mechanism. As a result, they delegate the representation of controlling to the managing or the financial director as the operative decision maker.

In case of several business associations the place of the controller within the organisation chart depends on the fact whether the management wishes to give any role for the controller in the decision making process. The traditionally ideal solution is created in case of a very small number of companies. In general, a central controlling directorate is created within the organisation chart, to which functional, divisional and regional controllers belong or may belong depending on the facilities of the company. In this case both conditions are given so that controlling may keep its objectivity and independence. They are included in the decision process as the preparer of the decisions and as an advisor.

SUMMARY

The role of controlling system in decision making is determining. It provides the managers with information concerning the company and it's main task is to give management the information it needs to make major decisions. Application of controlling increases efficiency, helps profit planning, budgeting and cost control. It also need to keep up with the latest developments in the uses of computers and in computer system design.

The selection of the persons performing controlling tasks should be based on the professional knowledge and qualification necessary for the controlling task independent on the fact whether it is the selection of an independent controller or the head of the function. In case of delegating controlling tasks and functions to concrete persons (controllers), the quantity and the complexity of the tasks to be performed should be determinant, that is, it is not important to appoint a separate controller for each controlling task. Therefore, in case of smaller enterprises the managing or the financial, etc. director may likewise perform the tasks related to controlling.

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