

DETERMINANTS OF CONTROLLING EFFECTIVENESS

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Abstract: *Controlling in Poland is described as a method of management support. The benefits of controlling are for example: the increasing management efficiency and reinforcing adaptability to the changes inside and outside the organization or ensuring conditions for long-term business existence and stability of employment. However, it is not always possible to achieve the above mentioned results. It turns out that it is theoretically possible to specify, and empirically prove that there are some determinants that determine the effectiveness of the controlling implementation in the organization. These are first of all the fulfillment of the primary and secondary pre-conditions of controlling implementations. The indication of these determinants will be the main goal of this article. As a result of the realization of a goal set in this paper the notion of the controlling effectiveness was defined and its essence explained. The primary as well as secondary pre-conditions of the controlling implementation in an organization were characterized, defining them as conditions of the effectiveness of the described method of management support. An extent of the author's research on the fulfillment of the primary pre-conditions of the controlling implementation in companies conducting business activity in Poland was presented in the paper. Based on the results of the empirical studies the importance of every condition was presented as well as the difference in the fulfillment of such conditions by the companies implementing controlling and those which did not take advantage of this method facilitating management was demonstrated. The quality of the controlling solutions was described as the secondary conditions of its effectiveness. The quality of controlling was defined as a degree to which the functional, organizational and instrumental solutions of the controlling are adapted to the operating conditions of the organization (including first and foremost its size, organizational structure, etc.), but also the external conditions, in which the organization functions (especially its variability).*

Keywords: *management method, controlling, controllership, controlling effectiveness*

JEL Classification: *M10, M40*

1. INTRODUCTION

Modern theory of organisation and management is saturated with new concepts whose basic aspiration is, as B. Haus states, the improvement of business management in order to reach its current or long-term goals (Haus, 1999, p. 51). Controlling is exactly one of such modern concepts, described as the method of management support. The method was introduced in Poland after 1989, so in the period of the systemic transformation. It is characteristic that the absolute pioneers in the scope of controlling in Poland were the managers of companies – branches of the Western-European organizations registered in the time of systemic transformation. The years 1995-2005 can be described as the decade when an interest in the described method escalated. The dynamic development of controlling could have been observed in the most distinct way in the Polish managerial literature: in Polish magazines and books more and more vibrant discussion was held on the topic of the notion and essence of controlling [Bieńkowska, 2012, pp. 9-22]. In 2004 E. Nowak writes about the “unprecedented increase in the interest concerning controlling, in our country in the last decade of the past century” [Nowak, 2004, p. 11]. Also, the contemporary research has shown that in Poland there is a rising interest in controlling not only in theory, but also in practice of management. Controlling's strong position in economic practice is simultaneously affirmed by the results of empirical research which show that in Poland, controlling has become one of the most frequently implemented

management methods [Bieńkowska, Zgrzywa-Ziemak, 2011, p. 214].

In Poland statements on the increasing popularity of controlling are, however, accompanied by the discussions on the “low effectiveness of the controlling in practice of the companies”, or on the “low efficiency of its actions” [Controlling. Technologia... 2000, p. 94]. K. Nowosielski states that “in the last years in the profession literature one could have noticed more and more frequent negative opinions about the controlling” [Nowosielski 2006, e.320]. M. Chalastra points out that in the “case of some companies the systems of controlling do not function in a proper way, a way which would meet the newest standards” [Chalastra 2009, p. 24]. E. Nowak, however, referring to the reorganization of the controlling system, points out that the reorganization implies the introduction of improvements, resigning from the previous concepts and methods of controlling and the implementation of more modern solutions which constitute a new model of the system of controlling in a company [Nowak 2003, p.13].

In that context, discussing the controlling effectiveness can serve, on the one hand as grounds to reject the quality of the controlling service, on the other hand, however, it can be an indicator used for the evaluation of the controlling solutions which have been implemented in the organization, confirming their correctness and drawing up programs that develop such solutions. Due to that fact, the purpose of the article is to focus on benefits, which can be achieved through the organization because of the controlling implementation, as well as on the cost

generated by its functioning within the context of factors, which – especially in practice – can determine the effectiveness of the discussed method of management support.

The paper is based on the conceptual analysis and conclusions drawn from the literature on the general review of controlling-related papers. It demonstrates the authors’ own view on the problem of the controlling effectiveness. In that context the aim of the paper is – first of all – to present the primary and the secondary pre-conditions of the controlling implementation to an organization, defined as the conditions of the effectiveness of the method of management support. Moreover, it is necessary to draw up the universal – in a given group of companies – outlines on the determination of the controlling solutions. However to start with, the notion of the controlling effectiveness should be defined.

2. THE NOTION OF THE CONTROLLING EFFECTIVENESS AND THE ESSENCE OF ITS CONDITONS

It is a common knowledge that a desired feature of every action should be it being successful, encompassing its efficiency and effectiveness, so to speak, the ability to achieve established economic goals in a beneficial way. The efficiency of an action is a relative measure, as it must be compared with the established goals. The effectiveness of an action, however, measures the results of work and incurred expenditure. Therefore, it can be understood in a broad way, as the balance of benefits and expenditure related to a given action.

Controlling is also, naturally related to the issue of effectiveness. In this study the effectiveness of controlling concerns the actions such as the implementation and functioning (so from the synthetic point of view: the application) of the controlling in the organization. Therefore, if we relate the effectiveness to the processes of the implementation and functioning of the controlling, it can be called for short the effectiveness of the controlling and defined as the achievement of the results concerning the implementation and functioning of the controlling in an organization together with the costs of its implementation

and functioning. The effectiveness of the controlling understood that way measures the results of how the controlling is implemented, and in consequence it should be distinguished from the related notions, such as: the quality of controlling and the quality of controlling solutions.

In the context of the concept presented in the Table 1 it should be stressed that the quality of the controlling is, in relation to the two other notions, the primary one. It indicates a degree to which the functional, organizational and instrumental solutions of the controlling are adapted to the functioning conditions of the organization (including first and foremost its size, organizational structure, etc.), but also the external conditions, in which the organization operates (especially its variability). This approach is in accordance with the principles of the situational conditions theory. The quality of the controlling solutions understood in such a way influences on the one hand, the quality of the controlling, which refers to the products of the controlling. The notion of the quality of controlling is understood, however, as the adaptation of the characteristics of the products of the controlling (services, benefits) to the needs and expectations of those in the organization who receive them. From the other perspective, it influences the effectiveness of the discussed method of management support. In addition, the controlling effectiveness (as opposed to the quality) is an absolute category, because it is not related, for instance, to the needs and expectations of the internal clients of the controlling. Moreover, it relates to the benefits of the controlling implementation that can be found outside the controlling system, for instance reduction of the operational costs of the organization, improvement of the managerial effectiveness and the information flow etc. Such benefits are called the indicators of the controlling effectiveness and are described in the work [Bieńkowska, 2012a, pp. 27-28].

From the systemic point of view, the effectiveness of the controlling perceived this way is quite rarely an object of the theoretical and empirical studies. In particular, the factors conditioning the effectiveness of the discussed method of management support are not analyzed in detail.

Table 1 The effectiveness used in controlling and the notions related to it

	QUALITY OF THE CONTROLLING SOLUTIONS	QUALITY OF THE CONTROLLING	EFFECTIVENESS OF THE CONTRILLING
Essence	Adaptation of the form of the controlling solutions to the internal conditions, which define the way the organization operates, and the external conditions, which affect it.	Adaptation of the characteristics of the controlling products to the needs and expectations of those who receive them in the organization.	Achievement of the results of the controlling implementation and functioning in the organization together with the costs of such an implementation and functioning.
Type	Relative	Relative	Absolute
Reference	Solutions/ controlling processes	Controlling products (services)	Benefits and costs of the controlling functioning
Main conditions	The expertise of those who design and implement controlling in an organization in terms of skills allowing to adapt the controlling solutions to the conditions of the organization's operation and the type of its environment.	Clients properly defining the internal needs and expectations towards controlling, the fulfillment of the primary pre-conditions of how the controlling is implemented, high quality of the controlling solutions.	High quality of the controlling solutions, the fulfillment of the primary pre-conditions of the controlling implementation.
Parameter type	Parameter of the solutions and processes	Parameter of the products (<i>de facto</i> to be found in controlling)	Parameter of the results of work and effects (<i>de facto</i> -outside controlling)

Source: Own study

There are no studies that would handle this issue in an integral way. Some aspects of the controlling implementation in an organization are strongly emphasized. The necessity to maintain a certain implementation regime of a given method can serve as an example [Bieńkowska, Kral, Zabłocka-Kluczka, 2011, pp.21-42], as well as the necessity to create a certain atmosphere within the organization that would guarantee adoption, approval and absorption of the controlling solutions by the organization [Vollmuth, 2000, p. 67]. Moreover, it is stressed how crucial the correctness and scope of the controlling implementation is for the results obtained by the organization [Zborowski 2006, pp. 105 – 108]. However, B.R. Kuc points out that the “factor conditioning the increase in the effectiveness of the system of the controlling is the proper coordination of the elements that shape it” [Kuc 2011, p. 49]. Whereas H.J. Vollmuth shows that “the higher position a controller has in the hierarchy of the company, the higher his effectiveness is” [Vollmuth 2000, p. 28]. Finally, D. Chachuła observes that “it can generate considerable economic benefits, on condition that:

- it is shaped and situated suitably to the requirements and conditions of the way the company operates;
- the assigned objectives relate to the possible, crucial needs of the management, it does not serve for the purpose of secretarial and servicing activities
- it supports the management of the whole company, as well as the managers of the strategic responsibility centers inside the company such as: profit center, cost center and project center” [Chachuła 2009, p. 59].

Therefore, for the application of the controlling to be effective, it is necessary to fulfill two groups of initial conditions. The primary pre-conditions constitute the first group of the conditions of the controlling effectiveness. Their equal fulfillment adds up to the proper execution of the application procedure of controlling and its effective functioning. The procedure comprises: the definition of the proper management style, supported by the suitable techniques, the modification of the organizational structure from the point of view of the future needs and requirements of the controlling – including the clear definition and distinction of duties, authority and responsibilities for individual positions, together with the characteristics (job description) of work positions, and also modification of the bookkeeping (accounting) so as it would be useful from the controlling point of view. The fulfillment of the second group of pre-conditions influences in the first place the effective functioning of the controlling. Both groups comprise the proper definition and implementation of the functional, institutional (organizational) and instrumental solutions of controlling specific to a given organization. The quality of controlling solutions should be recognized as the secondary condition of the controlling effectiveness.

3. THE PRIMARY PRE-CONDITIONS FOR THE CONTROLLING IMPLEMENTATION

The author of the most extensive list concerning the primary pre-conditions for the functioning of the controlling is H.J. Vollmuth [Vollmuth, 2000, p. 67-100]. On the first place of the list there is the requirement to receive approval from the head management. After H.J. Vollmuth, “only if the

above mentioned condition is fulfilled, it is possible to effectively implement the concept of controlling” [Vollmuth, 2000, p. 67]. What is more, the Author recognizes that at an early stage of the controlling implementation it should be, as far as it is possible, reduce the friction and resistance related to the implemented changes. The more support the people responsible for the controlling implementation receive from the head management, the more effective it is.

Furthermore, as an important pre-condition for the controlling implementation, it is required to apply a democratic or similar management style to controlling within the organization. It results from the fact that the discussed concept of management support requires the employees to engage themselves to a great extent to achieve the goals of the organization, as well as those of their area of work. This, however, results in the necessity of co-working with other employees and being co-responsible for the making decisions in the company. The team management style is a style which promotes the intellectual effort, creative invention, independence and team work [Vollmuth, 2000, p. 67].

Moreover, the idea of the controlling assumes the support for the team management style of the management techniques. Among them are: the management by objectives, authority delegation, deviation, results and motivation. The integration of the above mentioned management techniques should lead to the development of the human resources management technique that would be proper for a given organization. It is recommended for all companies to draw up their own management outlines, which would allow to define requirements as to the way in which the superiors and subordinates, as well as the employees of the equal position, would act towards each other [Vollmuth, 2000, p.71]. With the help of such outlines, relations which support the idea of controlling will be introduced to the company.

Before the final decision on the controlling implementation is taken, an analysis must be performed in a company, and perhaps also the reorganization of its organizational structure. In order to eliminate all identified flaws in this matter, as well as to improve the company’s operation (also paying special attention to the requirements of the process approach), its reorganization should be performed encompassing the changes in the organizational outline, adapting the structure to the current processes, determining the scopes of responsibility, authority as well as duties for each and every position, along with the procedures and the diagrams of the process path. The lack of precision in that matter can lead to “ the constantly overlapping interests and disputes between the managers, which have a negative impact on work” [Vollmuth, 2000, p.74].

The traditional book-keeping and financial accountancy is, above all, aimed at collecting information that is required by the environment of the company. Such a form of accounting cannot be adopted by the controlling. A solution here is to introduce management accounting to the company. The information that the management accounting collects, processes and distributes fully matches the previously identified by the controlling needs of the users, it is also reliable, objective, clear, valid and precise. Therefore,

it can constitute a basis for the decisions made by the managers. The reorganization of the accounting system for the purpose of the quality controlling seems to be a crucial primary pre-condition for the proper controlling implementation and its effective functioning.

What is left, is to answer the question which of the above mentioned changes are the most important in the process of the controlling implementation. Between 2011-2013 the Author performed her own studies among 310 organization operating in Poland. 58.4% of them implemented controlling. The research tool constituted a questionnaire filled in by one, competent person in each of studied organizations. It included, among others, one question relating to the primary conditions of the controlling implementation. The respondents were asked about the conditions on which the organization operates (aimed at all organizations). The respondents were asked to relate to the statements included in the questionnaire that refer to the separate conditions, on the five-level Likert scale (1-5, from "Definitely no" to "Definitely yes"). Such statements allowed to measure both declared and actual degree to which the principles are fulfilled in the studied organization. The results of the research are presented in Table 2.

It should be noted that in such organizations which have implemented the controlling solutions, almost all distinctive features proving the fulfillment of the discussed initial conditions were evaluated higher (Table 2). In the case of the distinctive features marked in the Table 3 with the following symbol "*" the differences are statistically important (t test was performed for independent samples).

4. QUALITY OF THE CONTROLLING SOLUTIONS

For the controlling to function effectively in an organization it is required (perhaps first and foremost), apart from the fulfillment of all primary conditions necessary for its implementation, to properly define and implement the three groups of solutions that refer to it. The three groups comprise the detailed functional, institutional (organizational) and instrumental solutions of the controlling. The proper definition of the controlling solutions is equal to the fulfillment of the secondary pre-conditions of the controlling implementation.

The functional solutions of the controlling refer to identification of the reference areas of the controlling, as well as to the definition of its functions and the task that arise from them, in each and every of the identified areas. It is also important to choose the controlling concept that defines the relations between the controlling and management. The organizational solutions concern the organizational sphere and encompass, first and foremost, the issues that refer to the distinction of the responsibility centers in an organization. The organizational solutions of controlling also include the incorporation of those who implement controlling in the organizational structure – the controllers – together with the definition of the scope of responsibility required on such position, their rights and responsibilities. The instrumental solutions of the controlling encompass the tools that serve the implementation of its tasks, which are used in the process of the controlling's functioning. In particular, the following should be named here: controlling costs and results accounting, budgeting, deviation analysis and the reporting system [Bieńkowska 2011, p. 20].

It should be stressed that in an organization that implements the controlling, the solutions from each of the above mentioned groups should be adopted. Thus, an individual solution package of the controlling would be created.

What does exactly a proper definition of the controlling solutions mean? If the quality of the controlling solutions means, according to the theory of situational determinants, the adjustment of the controlling solutions and the all factors that add up to the controlling, then the extent of such an adjustment would determine if the controlling solutions in the organization have been well defined. However, taking into account the factors that are "controlling-forming" we would mean the operational conditions and the characteristics of the individual organizations, and in particular the conditions that influence the shape of the controlling solutions such as: the size of an organization and the dynamics of the environment in which it operates [Hulsenberg, Wróbel 1995, p. 163]. The ideal match (possible more in theory than in practice) would determine the model solutions.

Table 2 The fulfillment of the primary pre-conditions of controlling

THE PRIMARY PRE-CONDITIONS OF THE CONTROLLING IMPLEMENTATION	Controlling in organization?	
	No(N=129)	Yes(N=181)
1. In our organization the superiors act in an authoritarian way.*	3,1855	2,8034
2. In organization the superiors give their subordinates freedom in the decision-making process.	3,6124	3,5659
3. In the organization the superiors describe to their subordinates in a precise manner the way the tasks should be performed.	3,6977	3,5714
4. In our organization the majority of the decisions if made collectively.*	2,8000	3,1271
5. The management by objectives is applied in our organization.*	3,5984	3,8729
6. In our organization the superiors delegate authority to the subordinate levels of management.	3,5317	3,8268
7. In our organization the deviations do not serve to punish those who are to blame, on the contrary, they serve to inspire to the self-improvement programs.*	3,5238	3,8380
8. The management by results is applied in our organization.	2,8880	3,1611
9. In our organization the superiors motivate the employees to work better in an effective way.	3,5969	3,6319
10. In our organization it is believed that because of the team work one can achieve better results.	3,7559	3,8689
11. The management of our organization is favorably inclined towards the changes in the organization, including the changes proposed by the controlling.*	3,8033	4,0165

Source: Own study

The model organizational, functional and instrumental solutions of the controlling (controlling standards) comprise the solutions which assure the accomplishment of the maximum possible effectiveness of the organization due to the controlling implementation. According to the theory of situational conditions the model solution is such a solution, which is fully adapted to the given conditions in which the company operates and their characteristics. The implementation of the model controlling solutions should on the one hand assure the proper controlling implementation into the organization, and on the other its effective functioning. One should bear in mind that when it comes to controlling, according to the theory of situational conditions, there is no single, all-purpose model solution. Uniform solutions can be distinguished for each of the groups of the organizations with similar external conditions and internal characteristics. Furthermore, the model solutions, suitable for one type of organizations, do not need to be suitable for others.

5. CONCLUSION

To conclude, the deliberation on the conditions of the effectiveness of the controlling, it should be stressed that they ought to, first and foremost, serve the economic practice. For the controlling has always been tied with the practice. "Carrying the stigma of the practical side of the business activity" [Weber, 2001, p. 29], the character of controlling implies its dynamic nature, which, however, creates objective difficulties connected with the interpretation, analysis, as well as the description of controlling, nevertheless also enables the evolution of the above mentioned method of management support along with its constant adaptation to the changes taking place in the organization and its environment. In this way, due to the high quality of its solutions, controlling is characterized by high effectiveness, and therefore it directly contributes to the increase of, first and foremost, the management efficiency, but also to the effectiveness of the organization as a whole.

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