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The abSence of Controlling as A Separate Organisational Unit in Business organisations

Summary

Today, when the economic environment is characterised by constant change and uncertainty, the area of controlling is particularly important. This is particularly true for small and medium-sized enterprises where the organisational structure and the associated controlling processes are not, or only partially, adapted to the growth in turnover. Given the large number of firms of this size in today's economy, the relevance of the issue raised is high for firms in the market. We have analysed, as a case study, the operational processes of such a company, its interfaces with its suppliers, subcontractors and customers. The picture that emerges shows that changes in operations, whether for the better or for the worse, are largely influenced by the mindset and culture of the owner, as well as by the responsible managers.

Keywords: controlling, business organisations, operations
Jel codes: M10, M15, M20, M40, M42

Introduction

Transport is an important part of the economic circulation. The market for goods and services has seen an increase in the value of those forms of service and the businesses that provide them, where operators seek to gain market strength by focusing on their core business. The key to creating the conditions for this is not investment, but the use of specialised partners to provide a package of services. This trend, also known as ‚specialisation', is a general one, since each individual becomes or can become a professional in whatever he or she can do with all the resources necessary to acquire the necessary experience and contacts on a day-to-day basis.

Timeliness of the issue

This issue is particularly topical because many small businesses find themselves in a positive situation of intensive growth, at least in terms of turnover, but are also faced with the problem that processes are starting to go wrong and that the lack of transparency is causing them concrete economic damage.

A typical example is that different owners and managers have different priorities at different stages of a company's development. In any case, it is growth that they have in mind, so that corporate operations take a back seat despite volume growth. In all cases, they seek answers to these questions spontaneously, without further reflection on the antecedents or consequences of economic events for the operation of the company. They do not devote any resources or attention to this, and only after the first major shortcomings have come to light, partly due to a lack of controlling functions, do they realise that the company is vulnerable, as there is no transparency in the processes and no real linkage or built-in control points.

When this situation is complicated by the fact that there are several owners in the company, only luck and goodwill, which one can hope for to ensure that the trust-based entity does not fall victim to error or simple fraud, will not fail because its near bankruptcy was caused by a complete lack of awareness and attention.

However, to do this, we must first recognise that we do not have all the knowledge and information necessary to responsibly understand the day-to-day running of a real company. We need to formulate an internal demand to be better and to see what is happening in our company. Once we have that, we are halfway there, because we can start down the long and bumpy road called management science and from there it is just a leap to understanding controlling and the need for it.

Controlling is formulating questions and evaluating them based on the answers you get.

In such examples, as in the case of the company in this case study, there is no overall controlling picture, only the anomalies detected are investigated, and then only belatedly. They are only trying to answer the question at hand, not looking at a possible trend. Costs are parallel, the cost implications of a given project, investment or purchase are not reconciled, so that both in terms of operating and total costs, the nonexistent system gives a false picture of the true state of the business and its profitability.

Mode

Case studies involve the application of previous, proven theory and practice. In the present case, a partly descriptive or descriptive version and partly explanatory version is used, where we also look for possible answers to cause and effect relationships by looking for the context and adding different data to it (Yin, 1993).

The best school of thought is when you have the opportunity to see the whole operation as a business leader. One of the first steps is to get to know the scope of the company's activities, its activities, functions, areas and staff. In the case of tasks and processes,

The next step is to understand the interconnections, the channels of information flow and the possible control and intervention points. The examination of organisational functioning will be developed as a case study based on a live example, one part of which is to check the controlling functions,

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identify intervention points and indicate missing elements in the controlled functioning.

There are, of course, other approaches to professional opportunities, which I can draw on in this case. In this case, the company is examined in terms of the changes that take place in its own way, on the basis of itself. The focus is therefore on internal factors rather than on the circumstances of the external environment, and therefore not generalising what is found here (Stake, 1995).

We also touch on the different departments of the company, their functioning and the issues and problems they face (Bassey, 1999).

Characteristics of the case study enterprise

The company has less than ten employees and an annual net turnover of between 1 and 2 billion HUF, which is a significant amount even with such a staff.

The company's main profile is focused on services and trade. Its long term fleet management business is the size of the smaller fleet managers with 130 rental road vehicles, mostly light trucks and passenger cars. In addition, a similar number of so-called re-marketing stocks returning from this activity are reflected in the company's accounts and processes as saleable goods after the service period.

Result

The service area typically makes vehicles available to renters for a period of 3 to 4 years, usually with an optional extension, so anyone who wants to can continue to rent the vehicle. As part of the package, the car is delivered to the user with a full service, with all the tasks and costs of operation being borne by the lessor, both as a task to be coordinated and as a cost. The older and the higher the mileage, the more work and the more bills you receive. Run times were affected by the chip and then material shortages that led to COVID and subsequent factory shutdowns.

This rewrote the options as tenant needs did not meet landlord opportunities. The vehicle shortage put the service on a forced track as the old lease continued to run, of course at a lower rent but with increased costs.

The high run rate brought with it higher cost levels, not to mention the fact that as overheads and wages rose, both related services and materials became more expensive. This has been a serious disadvantage and financial burden, as it has created a tension between revenue and operating costs. Vehicles exiting this service, mileage framework are again at a disadvantage when they reach the secondary market, as high mileage above 200,000 km discourages prospective buyers.

Vehicles that leave this service, mileage framework are again at a disadvantage when they reach the secondary market, as the high mileage of over 200,000 km discourages potential buyers. This is due to the fact that they are looking for a lower mileage of nearly 100,000 km, and the higher km would put a serious strain on the wallet of the next user for the expected major repairs.

Operational controlling in action - fleet business

The control of operational costs focuses on repairs indicated in advance by the lessee, as well as on mandatory and periodic maintenance. In advance, a draft based on a pro-forma invoice sent by the subcontractor (service provider) is approved with a licence number for traceability reasons. This is a new controlling step - but one that has been known and used routinely for a long time in large companies - and in this case has been in place for a year, which is able to provide a cost statement for each tenant and asset and to intervene as necessary on the basis of trends. This also filters out the higher cost levels resulting from the volume and content of the invoices received, as well as renegade vehicle use. The advantage of operational controlling is that it manages the incoming invoices on a daily basis, monitoring efficiency, but it does not have a longer-term perspective, so the evolution of cost levels, other expenditure and revenue already requires the control area to operate in a strategic mode and to think differently.

As the run rate is higher than originally planned, the possibility of monitoring was exhausted by keeping the additional costs at the same level. In addition, the level of other annual operating costs and the continuous increase in the price level were not foreseen. The contracts concluded with tenants did not take account of these incoming invoices or their increase at all.

The increased damage ratio has led to an increase in charges and the resulting increase in replacement car expenditure, and the depreciation due to repairs of assets has therefore increased sharply. A check of the incoming supplier claims and invoices shows an increasing trend due to the omission of the control step and the fact that no specific cost estimate was made in advance. In the invoice drawn up for the negotiations, the repair item has been removed, while the standard, customary and widespread annual mileage of 15-20 000 km has been increased to two or three times this amount at the request of the lessee, in other words the amount for the four-year period is spent over two years, while the lessee only commits to the service for a period of 2 + 1 years.

This was neither reflected in the normal rent nor in the billing of the increased start-up fee, so the only party that incurred a higher cost level than normal use was the landlord. The payment of the invoices received is subject to verification of their content and their legitimacy. In previous practice, this was settled on the basis of instructions or requests from senior management, without prior agreement, an authorisation process and, in particular, without a calculation - a pro forma invoice or tender - being issued for comment or approval.

In the case of vehicles operating in remote locations, finding the right service provider or subcontractor is a vital issue, as the vehicle is rarely driven to the lessor's premises, and for a user several hundred kilometres away it makes a difference whether it takes a day to drive another 600 km or, in the case of a replacement vehicle, whether the vehicle is loaned for repair. This means precisely that this cost is (neither) charged to the rental contract in question, so the cost picture and the coverage of the transaction is distorted.

The majority of the contract portfolio, which is constantly being renewed, has the same fixed assets. This has a negative impact on the level of expenditure, as the higher mileage increases the need to maintain the vehicle's roadworthiness, the more frequent repair and maintenance needs, and therefore the more time lost. The value of assets deteriorates in parallel due to elapsed time and high mileage. Even after forced extensions, contracts are not indexed to changed market conditions, and premiums have been reduced to reflect ageing assets.

Table 1: Correlations and differences between controlling and company size

Corporate controlling	Aspect	Controlling small and medium-sized enterprises
Competitiveness	Motivation	Development
Increasing flexibility	Objective	to increase control
Basic processes	Performance measures	Key processes
Strategic and operational plan	Planning	Business model and business plan
Complex	Controlling processes	Simple
News	Controlling information	Content
High	IT support	Low

Source: own editing based on Zs. M. Szabó (2018).

The data of the table 1. gives an idea of the differences between controlling activities in different sizes of business organisations, where different interests and objectives are expressed under very different conditions. Thus, the meaning of the activity is also a function of the will to carry it out, which also implies the emergence of classical management tasks in the operation of the enterprise.

Operational controlling - Used car business (fleet re-marketing)

Transfer pricing conditions apply to intra-group purchases of products and services. The market for returning cars from long-term fleets is highly complex and saturated. The current domestic market is essentially made up of these vehicles, as the disappearance of private customers has led to the disappearance of privately owned used cars from the market. In addition to domestic first registration and a relatively orderly service history, these vehicles are characterised by high mileage and a relatively narrow model, colour and equipment portfolio, with consequently more vehicles for sale than for sale, and less demand than supply. This is exacerbated by the steadily declining imports, which are present in the market. Pricing looks at several aspects, but there is no fixed methodology. It monitors the market supply of a given type and vintage, its own stock, demand and price conditions using available pricing programs. Prices are fine-tuned by reconciling different interests.

The controlling process starts with the synchronisation of the registers, the contract is signed after checking the existence of the invoice and the related documents, and the vehicle is then sent on its internal journey, where it is put back into the commercial circuit through advertisements after the necessary administrative and technical checks.

Accounting

The related accounting was previously done in a different system, as the site was not integrated with the accounting software used by the group, so the accounting vouchers were issued in a different software.

Business IT

The use of a different programme meant that the relationship between accounting and the business units was more complex, with the possibility of delays and errors due to the human interface, which meant that there were always delays and backlogs, sometimes due to the omission of an item, and debts to suppliers that were overdue, and the invoicing of services to customers left something to be desired.

Investments - Change in the size of the enterprise

The strategic task of controlling is planning, which typically involves putting concepts for the year ahead on paper, so that it is also possible to see what resources and expenditure are needed to take the company up the next stage of its development.

On the basis of the plan, the owner can decide to take the step by getting an idea of what the development can bring at the cost of the investment. he can choose to stay the course or not, as he cannot see from the figures whether it is really worthwhile for the company, at least in terms of short-term ideas and opportunities.

When the expansion is ahead of the scale of the potential, achievable benefits, the numbers do not reflect positively on the whole rationale for the move, and may even call it into question. The scale of expansion, for example by opening a new site or increasing staff numbers, will certainly - at least in the short term - not be sufficiently attractive, as they cost much more in relative terms than they directly bring, but the increase in volume, the change in volume and the increase in products and services sold are immediately accompanied by a significant level of costs. It can be experienced that when a new or renewed product or service is introduced, although the positive change is recognized, the reaction of business partners will be negative in relation to the price level.

This is referred to as the loss of cost competence, in which case it is necessary to retune the calculations and the market opportunities as well (Seidenschwarz, 1997).

At first glance, this will seem to be more about reducing the losses that can be achieved, when the need, the idea and the intention were the opposite.

Just over two decades ago, we were launching a completely new product line from a major global brand, when demand grew steadily and steeply, and we tried to meet it by drawing down production volumes and, of course, to profit from the unusually high market potential. The parent company, meanwhile, challenged the chief operating officer above me at headquarters - and interpreting this trend in a different way - asked if he had heard of managed growth, i.e. controlled, predictable market expansion that does not allow for sudden sharp increases because it is driven by a change in incremental cost levels that would negate the achievable result. We, both of us, were puzzled and could not understand why the management was not happy that business was going well and we were making good money. Now we both understand what they were thinking at the time.

Impact of the change in size on the overall balance sheet

A change in the firm's permeability creates a new situation in the life of the organisation. The inclusion of a new site in the operation, this form of separation of business units, changes the cost level because new or increased cost items are incurred:

– Staff costs - increased staffing due to simultaneous opening of sites
– Increase in operating fees due to increased staffing levels and the need for additional staff.

– Increase in rental fees due to the leased site.
– Increase in total purchase value of goods sold, due to the use of the new 1,100 m2 sales area and the increase in the volume of incoming stock,
– At the same time, depreciation has increased due to higher inventory

The operational support areas will continue to be outsourced to help the company strengthen the activities of the two main business lines.

Human controlling

In the case of this company, the human controlling function focuses primarily on wages and the avoidance of wage tensions. Partly, the necessary education and training, mainly in the form of in-house training, is also included. Staff planning was not followed by strategic planning on the expenditure side, i.e. a significant increase in personnel costs and payments, both because of staff growth and inflationary reasons. The overall increase in costs and the transformation of the business, with its significant working capital requirements in parallel with the expansion, has meant a major change in the company's annual balance sheet. The prompt, unplanned headcount increase linked to the expansion was achieved through intra-group transfers in two waves, and then, opening a new chapter, quality replacements were initiated - in an effort to professionalise and promote the necessary change of mindset to make this happen - the real impact of which is expected to be measurable in six months' time.

Performance assessment

The performance evaluation, which is part of the human controlling activity, supports the work of the employees working in the business area and evaluates it on a monthly basis, using a passive method, in which the coverage is not measured, only the volume is measured. The general performance appraisal, which is advantageous and concerns staff in all areas, is carried out once a year, is not dependent on individual or company economic and financial results and does not provide feedback on the quality of work.

Financial characteristics

The portfolio of stocks and assets has changed in quantity and quality, including in terms of cost prices. The necessary financial resources have been supplemented by a centrally subsidised revolving overdraft facility at a preferential rate, managed by the financial institution holding the account, in addition to own resources. Interest charges on the facility are regularly reflected in the operations, but this is unavoidable due to the purchase of new inventory items in varying quantities and values and the inclusion of new assets. This long-term borrowing will provide this two hundred and fifty million over three years, which will be reviewed and evaluated annually by the Bank.

Conclusions

It can be seen that controlling objectives must be in sync with corporate objectives. According to some professional opinions, controlling activities can be carried out by a company or enterprise that wants to become a company in the future. The basic task is still to enable managers to realise the planned strategy and operational objectives within a defined timeframe (Schoeppner, 1999). It is intended to guarantee the possibility of continued operation beyond the year, i.e. in today's thinking, by means of long-term visions.

Understandably, it is the in-year tasks that will provide the confidence to operate, the financial stability through the revenues from the day-to-day business. The basis for this control system is set out below:

We define the objectives to be achieved, assigning the necessary means. The next element in the sequence is the establishment of an appropriate management accounting and management information system. It is important that the necessary input data are available to carry out the evaluations. The analyses will process this data, including the stage of implementation, the relevant business information for both the market and production. The conclusions and results will determine the subsequent decisions, i.e. the content of the changes achieved from the previous process activities will be fed back.

Evidential discipline

The systematic and regular receipt of incoming information and data allows the foundations to be laid. If this element is missing, the management information system fails to fulfil its controlling role, so neither the company nor the manager is safe.

Whether it is an unexpected expense or an inappropriate claim, it slips through the system without a hitch, causing further damage and disruption to operations.

Automating the channels for retrieving data and transforming the role of the human factor are essential for the secure functioning of the company's internal systems.

With the cost implications of inventories and assets, we need accurate data collection when determining the purchase value of goods sold.

The combined treatment of all incoming invoices of the cost value is the basis for the development of accurate prices and price levels for the activity, which I will illustrate by two examples per business line:

In the case of an inventory purchase, the items to be paid for are shown:

– purchase price
– Technical (repair and maintenance, preservation, safety)
– financial (stock financing or other bank)
– administrative (taxes and duties)
– interest costs calculated on the basis of the stock turnover rate
– other impairment losses (due to changes in market conditions)

If an asset is set up, you can see the items to be paid for:

– purchase price
– general operating
– technical (repair and maintenance, preservation, safety)
– financial (financing or other banking)
– administrative (taxes and duties)
– depreciation of assets
– other losses due to impairment, damage, market conditions

As the examples show, it is not enough to make decisions and calculations by simply receiving a single invoice, since the management information systems and the operation of management controlling require that all the necessary data and information be received and processed, otherwise the operation of

Figure 1: The figure shows the elements of the COSO framework

Source: PAPADOPOULOU, E. (2022)

a transaction or department can easily become a loss-generating centre instead of an apparent profit centre.

The system shown in Figure 1 below, which has been adopted by COSO for several decades and was last updated in 2013, provides a familiar framework. I believe that this is a good basis, but the principles and criteria laid down need to be updated again, given the preference for shorter planning horizons and the sharp increase in the number of projects.

*You cannot manage what you cannot measure, you cannot measure what you cannot write down. (R*obert S. Kaplan - David P. Norton) Part of the management system is the controlling system, which includes planning, continuous monitoring of deviations from planned and actual data, uncovering the causes of deviations, providing this manager with information that is absolutely necessary for the preparation of the decision (Zéman – Tóth, 2018).

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