THE RELATIONSHIP BETWEEN THE ROLE OF CONTROLLING AND CORPORATE PERFORMANCE

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ABSTRACT

The financial crisis and the constantly increasing environmental uncertainty has changed the regular controlling practices of corporations. More and broader-based information is required by management and stricter cost control has been implemented at many organizations. Both practitioners and academics claim that controlling, as a decision supporting tool has gained more managerial attention. This paper analyzes the organizational role played by the controlling function and investigates the connection between the role of controlling and corporate performance. The study is based on the survey of the Competitiveness Research Centre at the Corvinus University of Budapest that was conducted in summer 2013. The paper argues that while the business-oriented role of controlling is apparent at Hungarian enterprises, this is only the characteristics of the minority. It shows that companies with business-oriented controlling do perform better, however this relationship is weak.

1. Introduction

It is well defined and highly regulated how accountants act in an organisation. While regulatory differences between regions such as the US and Europe do exist, there is not much doubt about the main role of accounting, i.e. trustfully recording and reporting about the financial and economical situation of the organization. At the same time the role of controllers[1] is heavily debated. Some regulatory aspects should be considered here as well, but the degree of uniformity is far below that of accounting or auditing. Controlling is much more shaped by the needs of the organization and its environment.

While understanding the contemporary role of controllers has always been a research topic of interest, during the last decade – and especially after the beginning of the financial crisis in 2008 – it gained even more popularity. Influential

1 While controlling is a widely used naming convention, researchers from the Anglo-Saxon countries refer to this profession as „management accountants”. This paper primarily uses the label „controlling” and the term “management accounting” is used only in the literature review, if the referred source uses that.

contextual factors of controllers' roles are well researched, but the consequences of the identified new roles remained rather under-investigated to-date. Is there any impact of the newly occupied controlling roles on performance? If not, it seems to be uninteresting, for practitioners at least. The current paper focuses on the newly advocated business-oriented role of controlling and investigates whether business-orientation of controlling can be linked to higher organizational performance.

2. Literature overview

The roles occupied by controllers in an organization are labelled very differently in the literature. The more traditional, so called functional (accounting) oriented role is often denoted as book-keeper (Hopper, 1980), bean counter (Friedman and Lyne, 2001), score-keeper (Loo et al., 2011) or corporate policeman (Hartmann and Maas, 2011). The more business oriented role is denoted as service-aid (Hopper, 1980), business advocate (Jablonsky et al., 1993) and most often as business partner (Granlund and Lukka, 1998; Järvenpää, 2007; Hartmann and Maas, 2011). Current paper uses "functional orientation" and "business orientation" for labelling the two types of roles (Emsley, 2005) and aims to gain a better understanding of the roles' content. The research is based on the top executives' perception, what is rather unusual in the recent literature.

The typical point of reference of role studies is self perception. A significant number of studies are based on surveys and / or interviews of controllers without asking the clients: the managers of the organisation (Yazdifar and Tsamenyi, 2005; Emsley, 2005; Emsley and Chung, 2010; Maas and Matějka, 2009; Hartmann and Maas, 2011). While the self-image is very important, the role occupied by controllers in an organisation cannot be evaluated exclusively on self perception. The more powerful studies involve managers and their perceptions as well. Empirical evidence has shown that there is a significant gap between managers' and controllers' perception about the controllers' role (Byrne and Pierce, 2007; Pierce and O'Dea, 2003). Current research is based exclusively on the judgement of top executives, the CEOs of the surveyed companies. Managers are the internal customers of controlling services and among them, CEOs are seen as the most influential, opinion-leader executives.

A long list of papers investigated the roles occupied by the controllers and the factors influencing these roles, but only a very limited number of studies focused on the consequences of these roles. Without discussing the consequences it is hard to define the relevance of this topic. What does the role effect? If nothing, it does not really matter which role is played by the controllers in the organization.

Byrne and Pierce (2007) studied not only the antecedents and characteristics of the MAs' roles, but they also identified the major organizational impacts of these role: role interface, information impact and the influence on performance. They found, that the "involvement of management accountants may mean that managers actually achieve better results” (Byrne and Pierce, 2007, p. 492). Better managerial performance is linked to the enhanced personal performance of those individuals who used MA systems (MAS) in order to improve their decision making. How this managerial performance effects organizational performance was not researched. The causal link between managerial and organizational performance seems to be regarded as obvious: if managers perform better, the performance of the business unit or of the whole organization will also be higher: „MAS will help managers improve their performance and that of their organization” (Chenhall and Morris, 1986, p. 31).

The link between the controllers’ role and the organizational performance was established by Zoni and Merchant (2007). They conducted a small sample survey study among large industrial corporations in Italy. They found that the controllers’ involvement in management decisions is positively correlated with long-term organizational performance. While Zoni and Merchant (2007) limited the controllers’ role to only their involvement in the management decision process, the research provides interesting result. It implies that the newly advocated business orientation of controllers is also positively associated with organizational performance. Current paper aims to prove this positive association. Does business-orientation really go in hand with higher organizational performance?

3. Quantitative research

The “Competing the world” research program was launched in 1996 by the Institute of Business Economics at the Corvinus University of Budapest with the aim of researching the competitiveness of Hungarian enterprises. Current research uses the data based on the last, fifth survey conducted in the summer of 2013. Although controlling-like activities can be found even in micro-size and small companies, dedicated controlling function only exists at mid size or more typically at large companies. Therefore the original sample was restricted to medium and large companies. The total sample includes 300 Hungary-based enterprises with different size. After removing companies under 50 employees and those with missing values in relevant variables, the final sample of this research involved 220 companies.

Two sets of variables have been analyzed: variables referring to the role of controlling and variables measuring the organizational performance. Organizational performance was measured not by objective measures, but by subjective ones. Top executives were asked to rate their organizations’ performance relative to the main competitor (18 variables) and to that of the industry average (6 variables) on a five-point Likert-scale (from 1 = far below average to 5 = far above average). Performance measures of both dimensions had high Chronbach’s Alfa values: 0.912 for performance when compared to the main competitor and 0.864 for performance compared to the industry average. The high internal consistency suggested to add up the original variables into one global measure in case of each performance dimension.

Similarly, the variables related to the controllers' role were based on the top executives' perception, using five-point Likert scales (from 1 = not at all characteristic to 5= very characteristic). CEOs have been asked about three aspects: the general involvement of controlling in the decision making process (4 variables), the level of support provided by controlling for the strategy formulation and execution (5 variables) and the general satisfaction with the controlling reports (4 variables). The variables showed a high internal reliability in case of each aspect. The high Chronbach's Alfa measures (0.84; 0.92; 0.919) show that the variables of one aspect measure the same thing.

While the overall mean value of these 13 variables is 3.39, there is a huge difference among these variables. For ease of explanation, the value of each variable is presented in Table 1 in centered form: the average value of each respondent is calculated for one set of variables and then the average was subtracted from each corresponding variable. This means subtracting the row average form each element in a row, which method is often called as centering across the second mode (Bro and Smilde, 2003). A positive mean value shows that the given variable gained support above average. Negative mean value shows that the variable was supported below average.

Based on the mean values, three distinct groups of variables can be identified. The centered variables with a positive mean values refer to the classic "beancounter" roles. This means that the top executives see these classic activities still alive in their companies: controlling collects and provides accurate and reliable data for the day-to-day decision making and for strategy development. Variables with a mean value close to zero refer to more added-value activities of controlling like provision of analysis, explanations and user-friendly reporting. Variables with negative mean values show the characteristics of the business-oriented role: controlling does participate in the decision making through its proposals and has a large (beyond data) added value. The negative values indicate that this type of controlling function is less typical for the companies involved in the survey.

These centered variable means provide an overall picture about the sample, but they have a high variance among the different company clusters. By cluster analysis of the original, non-centered variable clusters of cases were identified where clusters represent companies with different role of controlling. The dendogram of the hierarchical clustering based on Ward's method suggested a cluster number of 3 that proved to be applicable in further analyses. Clustering was repeated by k-means clustering method as well. ANOVA tables of the k-means clustering proved that all of the 13 variables contribute significantly to the cluster separation. The Chi-square test for the crosstabs of the saved cluster membership variables from k-means and hierarchical clustering had a p-value of 0 in the case of k=3, showing that the cluster membership variables of the different methods are not independent. The observed high Cramer V-value (0.899) implies a strong relationship, proving that k-means clustering and hierarchical clustering have very close results.

Table 1: Mean values of centered variables measuring controlling's organizational role

	Controller…	Centered variable means
Involvement of controllers in the decision making	collects and provides cost and income data.	,4057
	analyses the data and provides explanation.	,0811
	gives proposals for enhancing corporate performance.	-,2039
	is the consulting partner of managers in the decision making.	-,2829
Level of support provided by controllers for the strategy formulation and execution	provides fact data as an input of strategy development.	,3805
	analyses the feasibility and the financing needs of the strategy.	-,0133
	measures the fulfilment of strategic goals.	-,0310
	warns in case of deviation from the target values.	-,0531
	gives proposal for strategy reviews.	-,2832
General satisfaction with the management reports	prepares reports satisfying our managers' needs.	,1133
	prepares reports including accurate and reliable data.	,2504
	prepares reports that are easy to understand and interpret.	,0823
	has a large (beyond data) added-value in the reports.	-,2982

Source: own

Based on the calculated final cluster centres, the identified three clusters of companies can be interpreted in reference to the controlling's role in the organization. 29 companies in Cluster 1 (13.2% of the total sample) have basically no real controlling activity. The mean value of these 13 variables is 1.43, meaning that the top executives of these firms did not observe any contribution of controlling to decision making and strategy implementation. On the other side, cluster 3 involving 83 companies (37.7%) can be seen as having a business-oriented controlling function. The mean value of the 13 variables is 4.4, meaning that the top executives of these firms see significant contribution of controlling to decision making and strategy implementation. Cluster 2 with 108 cases covers almost half of the sample (49%). The mean value of the 13 variables is 3.17. These companies have a well operating controlling function focusing more on the traditional roles what is reflected by the low values in the business-oriented variables.

In order to analyse the relationship between the corporate performance and the controlling's role, the cluster means of the performance variables have been calculated and tested. As the performance variables do not have normal distribution in each cluster, the non-parametric Kruskal-Wallis test has been used. The test has shown that the cluster means are significantly different at the 5% significance level in respect to the relative performance compared to the main competitor (p=0.042) and the relative performance compared to the industry average (p=0.006).

Table 2: Comparison of performance measures of different clusters

		Mean value of performance compared to the	
		the main competitor	the industry average
Cluster 1	No real controlling	3,2894	3,2716
Cluster 2	Function-oriented controlling	3,3954	3,2628
Cluster 3	Business-oriented controlling	3,5349	3,4898

Source: own

Table 2 describes how the performance values of the three clusters differ from each other. The performance of the business-oriented cluster is the highest in case of both measures, however the difference seems to be low. This got verified by the observed low eta-square values calculated based on the one-way ANOVA test (eta-square values = the quotient of the sum of squares between the clusters and the total sum of squares). Eta-square values (0.032; 0.035) showed that the organizational role of controlling explains approximately 3% of the variance of the corporate performance.

4. Discussion and conclusions

Researchers willingly report about a shift from more functional oriented role toward business orientation and suggest controllers to be a business partner. Despite that an extensive literature advocates this role change, there is only limited empirical evidence on the real fundamental shift between roles (Burns and Baldvinsdottir, 2005). The current study claims that there is a group of companies (Cluster 1) where not even the functional oriented role of controlling is apparent. However this becomes less typical for companies of bigger size and foreign ownership. A notable ratio of companies (37.7%) already have a business-oriented controlling function (Cluster 3). The label "business orientation" could be interpreted by the variables of the survey that corresponds with the general interpretation: business-orientation consists of controlling's active participation in the daily decision making and strategy development as well.

It is generally assumed that the business orientation of controlling is desirable. Business orientation of controlling is generally favoured because the participation of controlling in the decision making should lead to better decisions and therefore enhance corporate performance. The results of the current study proved that companies with business oriented controlling function do perform better than others. The difference in performance is low, but statistically significant. The role played by controlling in an organization accounts for a 3% performance difference. Seeing that many factors influence corporate performance, this is a reasonable level of effect. It implies that it is worth to move towards more involvement and added-value activities of controlling.

The values of subjective performance measures show that the self-evaluation of top executives is surprisingly positive. Majority of respondents perceive the performance of their companies better or at least similar to the industry average (Chikán et al., 2014). In a further research, it would be interesting to compare the subjective and objective performance measures, to repeat the current analysis by using objective measures instead of subjective ones and to analyze the causality between role and performance. An additional possible direction of further research is to characterize the defined clusters: how the applied controlling tools and controlling organizations vary in case of companies with different controlling role.

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