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Introduction

Contemporary management control and reporting both face challenges. Consequently, a new and more sophisticated scientific approach is needed. From one point of view, interdisciplinary studies and theories are necessary. From another point of view, empirical research and practical issues call for a more specific and specialized approach. This complexity is reflected by the content of this book, which covers topics that emerge from present world's complexity. Therefore, the authors focus on ever-important issues (such as the strategic approach and its support by management control and reporting, survival of companies), and more modern issues (e.g. cultural aspects, measurement and reporting adjusted to branches, spheres and organizations and specific issues of management control and reporting).

The strategic approach to managerial control and financial statements and their role for company's survival is presented in papers by J. Dyczkowska (who addresses the question whether annual reports communicate strategic issues and focuses her study on reporting practices of high-tech companies), A. Bieńkowska, Z. Kral, A. Zabłocka-Kluczka (who explain the role of responsibility centers in strategic controlling), P. Kroflin (who explores the value-based management and management reporting examining impacts of value reporting on investment decisions and company value perception) and A. Reizinger-Ducsai (who discusses bankruptcy prediction and financial statements). The problems of management control and reporting and their adjustment to specific conditions and organizations are undertaken by T. Dyczkowski (who introduces his NGO performance model), Z. Kes and K. Nowosielski (who present the case study of the process of cost assignment in a local railway company providing passenger transportation services), S. Łęgowik-Świącik, M. Stępień, S. Kowalska and M. Łęgowik-Małolepsza (who analyse the efficiency of the heat market enterprise management process in terms of the concept of the cost of capital), and M. Pietrzak and P. Pietrzak (who discuss the problem of performance measurement in the public higher education). The cultural aspect of managerial control and reporting is explored in papers written by M. Nowak (who presents cultural determinants of accounting, performance management and costs problems showing the issue from Polish perspective using G. Hofstede and GLOBE cultural dimensions) and P. Bednarek, R. Brühl and M. Hanzlick (who provide a literature overview of planning and cross-cultural research). The specific problems and concepts of managerial control and reporting are investigated by M. Ciołek (who discusses the lean thinking and overhead costs), E. Nowak (who analyses the role of costs control role in controlling company operation), Ü. Päril, R. Koyte,

S. Näsi (who examine middle managers' mediating role in MCS implementation), R.L. Sichel (who discusses the relevance of intellectual property for management control), J. Paranko and P. Huhtala (who analyse the productivity measurement at the factory level).

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COST CONTROL AND ITS ROLE IN CONTROLLING COMPANY OPERATION

KONTROLA KOSZTÓW I JEJ ROLA W CONTROLLINGU DZIAŁALNOŚCI PRZEDSIĘBIORSTWA

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Summary: The paper presents the concept of cost control and its application in the task of managing an enterprise. Essential qualities of cost control are discussed as part of the goal-oriented company operation management subsystem. The position of cost control in the broad context of a company control system is presented, as well as its correlations with other subsystems. A division of cost control into strategic and operational cost control is introduced, followed by an overview of instruments allocated to each category. The paper concludes with an analysis of correlations between cost control on the one hand, and cost accounting and cost management on the other, as a set of complementary sources of information for company management purposes. The author provides arguments in support of the thesis that cost control is an important concept in modern management accounting that offers substantial improvement of company operational effectiveness.

Keywords: cost control, cost accounting, cost management, management accounting.

Streszczenie: Artykuł jest poświęcony wykorzystaniu koncepcji controllingu kosztów w zarządzaniu przedsiębiorstwem. Na początku została ukazana istota controllingu kosztów jako podsystemu sterowania działalnością przedsiębiorstwa z punktu widzenia osiągnięcia zasadniczych celów. Następnie zaprezentowano miejsce controllingu kosztów w systemie controllingu oraz jego powiązania z innymi obszarami. W kolejnej części artykułu omówiono podział controllingu kosztów na strategiczny i operacyjny wraz z przyporządkowaniem odpowiednich instrumentów. Na końcu artykułu ukazano relacje między controllingiem kosztów a rachunkiem kosztów i zarządzaniem kosztami, które są dziedzinami wzajemnie się uzupełniającymi. Rozważania przeprowadzone w artykule dowodzą, że controlling kosztów jest ważną koncepcją współczesnej rachunkowości zarządczej wspomagającą poprawę efektywności działalności przedsiębiorstwa.

Słowa kluczowe: controlling kosztów, rachunek kosztów, zarządzanie kosztami, rachunkowość zarządcza.

1. Introduction

Every form of economic activity necessitates an active involvement of various resources: material, financial and human. This involvement invariably generates costs that must be incurred as a result of company running operation. Costs are directly reflected in the company's financial performance and are used as a basis for evaluation of its economic effectiveness and for the estimation of decision-making calculations.

Running a business with no regard for the current level of expenditures is doomed to fail. Therefore, the full account of costs incurred in the course of business operation is a valuable instrument for managerial purposes at any level, from a company board, through middle management of individual organizational units, to lower management. The principal goal is to manage the cost and bring the expenditures to a rationally justified level, as the prerequisite for business success and lasting competitive advantage. In view of the above, managerial personnel of every level should make every effort to include cost information in all their managerial activities.

The significance of cost for company operation is reflected in various areas of economic studies, particularly – management science. One of the most popular concepts used in modern management models is cost control. Similarly to the traditional approach to expenditures, cost control involves the managerial analysis of running costs incurred in the course of company operation. As such, cost control is regarded as one of the essential areas of the company control system, designed to facilitate the current management of company operating expenditures. For this reason, cost control should be included as part of a company control system for any type of enterprise.

This paper presents the role of cost control in company management. The main objective is to discuss the essence, range and place of cost control in the overall system of company management oriented on improving the resource use effectiveness. The central thesis of the paper can be stated as follows: effective realisation of strategic objectives requires a reduction of costs incurred in the course of company operation, which involves improvements of the company's operating processes. To meet the main objective and examine the veracity of the above thesis, the author carried out a critical analysis of professional literature on management accounting with reference to the study of cost management.

2. The essence and the objectives of cost control

Cost control, as the term implies, is an element of a company control system involved in the study of costs incurred in the course of company operation. In other words, cost control is a relatively isolated subset of a company control system dedicated to the study of operating expenses. For this reason, the analysis of the general concept of a company control system as such may be a good starting point for the discussion on the nature and the objectives of cost control itself.

Professional literature provides no definitive approach to the essence, objectives and functions of controlling. An exhaustive overview of the existing definitions of controlling is presented in Nowak [2013]. The author specifies 12 categories of definitions corresponding to the most popular approaches to the concept of controlling. In practice, many definitions of controlling accentuate several aspects of the process. This paper makes use of those definitions which put the emphasis on controlling company operation and supporting the realisation of projected objectives.

For our purpose of analysing the essence and objectives of cost control, the most useful definition of controlling is the one postulated by P. Horvath. In the above approach, controlling is defined as a subsystem of management involved with control of company operation from the viewpoint of adopted objectives, and effected through design and coordination of various processes, such as planning, control and information feed [Horváth 1990]. It seems that the above definition is the most complete statement of the essential characteristics and functions of controlling.

Based on the above, cost control can be defined as a subset of controlling involved with control of company operation from the viewpoint of adopted cost and expenditure objectives. As such, it requires coordination between planning, cost control and information feed processes, as applied to the level of cost incurred in company operation.

A similar reasoning in the approach to cost control essence is presented in Rubik [2003], with the author defining cost control as coordination of methods and instruments of management accounting with those involved in cost control. Rubik postulates that cost control should contain the following elements: cost accounting, cost management and management accounting (i.e. the methods and techniques thereof which apply to cost).

The essential feature of cost control is its comprehensive and cause-effect approach to the problem of costs incurred in the course of company operation. Consequently, this particular subset of controlling consists of five correlated and interrelated elements:

- cost itemisation,
- factors having impact on cost,
- processes responsible for cost elevation,
- centre for cost responsibility,
- cost measurement methods.

It may also be useful to note that, in the control system approach, costs are examined not only retrospectively, but also prospectively. The underlying reason is that cost levels should be targeted and controlled before they are incurred. This is based on the observation that the level of costs incurred in future production is largely defined at early stages of a production process, i.e. at the phase of research and development, product design and production planning.

Cost control is mainly involved with control of company operation with the intent of reducing expenditures, as opposed to narrowly defined control of incurred expenses. As such, it also comprises a broad assortment of activities concerning cost information

processing and its use in decision-making processes. Cost control is subordinate to the prime goal of achieving company objectives and supporting the effective realisation of economic processes.

The role of cost control in company management is derived from its objectives and from the tasks it fulfils in the broader context of a company control system. Since cost control is regarded as a subset of a control system, its objectives must be correlated with those of a system as a whole. Therefore, it may be assumed that the overriding objective of cost control is to maximise company financial result, which should translate into a tangible increase of company value.

The above formulation of the overriding objective is fairly general. However, it may take on a more detailed definition if approached in a specific context of company cost structure, as its primary area of application. Thus, it may be assumed that the overriding objective of cost control is to reduce company cost by improving company operation. The latter definition is in accordance with the previous formulation of company control objectives, defined in terms of increasing company financial result.

3. Cost control as part of a company control system

Cost control is a distinct area of company control. In other words, it may be seen as a relatively distinguished subset of a controlling system. However, it cannot be regarded as an independent element, or an isolated subsystem. In view of the above, it may be useful to define the placement of cost control within a controlling system and analyse its relations to other areas (subsystems) of controlling.

Separation of specialised areas of controlling (also referred to as controlling by areas) is an approach based on the assumption that company operation is manifested in several areas, and that each area of application corresponds to a specific set of economic processes. By structuring a controlling system, we can apply specific process management solutions adjusted to each area of business operation and make sure that the selection of instruments is appropriate to the specificity of the process being targeted. This approach can improve the effectiveness of a controlling system, as seen from the viewpoint of the company's primary economic objectives [Nowak 2013].

The structure of a controlling system may be established using a variety of criteria. For example, if a criterion is defined in terms of functions served in company operation, the resulting structure of controlling will consist of control areas, such as R&D, supply, sales, and post-sales service. Some experts also distinguish additional control areas of logistics and administration.

Another useful criterion for a segmentation of controlling areas is the target of control processes. In this approach, the resulting structure will include control of personnel, quality, finance, fiscal obligations, costs, etc. All the above forms of controlling, including cost control, are directly related to the ones distinguished by function.

Figure 1 presents correlations between cost control and other areas of controlling. For another approach to those correlations, based on M. Porter's concept of value chain, see [Hornngren et al. 1998, p. 8].

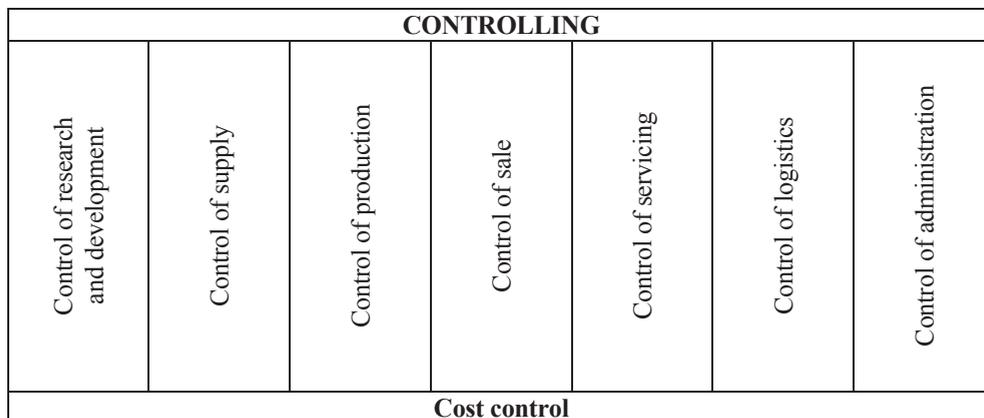


Figure 1. Placement of cost control in a company control system

Source: own research, based on Markowski [2011].

The segmentation of controlling into subsystems shown in Figure 1 is by no means complete or exhaustive. Moreover, there are other correlations at play between the individual segments. For a controlling system to serve its purpose and objectives, it should target all functional areas of company operation. And the effectiveness of controlling in the above areas depends – to a large extent – on the organization of cost control.

Cost control is strongly correlated with controlling in such areas as R&D, supply, production, sales, servicing, logistics and administration since the practical realization of these company functions requires sizeable outlays. In effect, the total volume of expenditures incurred by a company is the sum of costs related to the realization of individual functions. Consequently, for controlling purposes, company operation should be examined from a variety of perspectives – one of them being the level of expenditures.

As already noted, the overriding objective of a company controlling system is to increase the financial result of a company. This is achieved mainly through reduction of operating costs. This, in turn, can be effected through rationalisation of expenses incurred in the realization of each of the company functions, since each function requires the use of diverse resources. The use and the consumption of resources are invariably linked with expenditures – these are assigned to the appropriate functions (or processes) by a company controlling system. As a result, cost control is strongly correlated with other areas of controlling.

To control the level of expenditures, the executive and managerial cadre must continuously improve the economic processes of the company. This task requires careful analyses of all the activities employed in the realization of each process. By improving the effectiveness of individual processes, a company may increase their resource use effectiveness. This, in turn, offers a reduction of cost involved in the realization of individual functions, which is one of the most important tasks of cost control. In other words, proper control over individual functions and processes is one of the main methods for the rationalisation of expenditures, representing the most distinguished feature of cost control (see Section 2).

Controlling, as part of a company management support system, assists managerial tasks both at the operational and the strategic level. This observation is also true for cost control. With regard to the level of management targeted by the system, cost control subsystem may be divided into two subsets:

- strategic cost control, and
- operational cost control.

Initially, cost control was primarily tasked with day-to-day control over the expenditure levels, based on budgetary control instruments. With globalisation of economic operation, increased market competition and high dynamics of the economic environment, companies were forced to re-orient their approach to cost control. Expenditures should be analysed and targeted in a wider timeframe. For lasting and durable improvement of effectiveness, the cost levels should be targeted and controlled at every stage of their generation.

4. Cost control and its relations to cost accounting and cost management

This paper addresses cost control as a relatively isolated subsystem of the controlling system. However, it is not the only area of company activities involved in analyses of cost incurred in the course of economic operation, and it operates in tandem with cost accounting and cost management. Professional literature provides no definitive pointers as to the nature of the three areas of management accounting and their correlations. This section offers some insight into the subject of relations between cost control, on the one hand, and cost accounting and cost management, on the other.

The main task of cost control is to adjust operating cost information to the needs and requirements of company management. In effect, the executive and managerial cadre are able to make informed decisions on all matters bearing substantial cost outlay. Cost control should provide favourable conditions for making rational decisions and choosing the optimal variants of operation. The underlying selection criterion is cost minimization. However, in some cases, managerial decisions can be based on other selection criteria (such as profit maximisation). In such a scenario, cost levels will serve as a limiting factor in decision-making processes.

The above deliberations suggest that cost control is closely related to cost accounting and cost management. The flow of these relationships is presented in Figure 2.

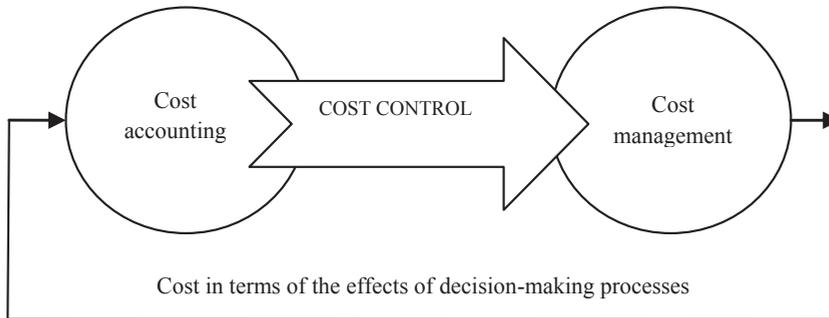


Figure 2. The relationship between cost control, cost accounting and cost management

Source: own research based on Nowak [2007].

The relationship of cost control to cost accounting and cost management is similar to the relationship of controlling to accounting and management, as presented in Nowak [2007]. Cost accounting is a subsystem of the accounting system of information, just as cost control is a subsystem of a controlling system. Cost management, in turn, is a relatively isolated area of management.

Cost control makes use of data produced by the cost accounting subsystem and transforms it into information that can be used for management purposes. In this sense, cost accounting is a primary repository of information for cost control and, as such, it can be seen as an area conditioning the use of cost control in a company. At the same time, the cost accounting subsystem may be adjusted to the requirements of (cost) control to a varied degree. Cost management, on the other hand, involves making decisions with the aim of reducing the level of expenditures incurred by a company. Cost as the effect of managerial decisions is then measured and analysed by the cost accounting subsystem. Hence, the relationship of cost control to cost accounting and cost management is very strong.

The relation of cost control to cost accounting and cost management may be also presented from the viewpoint of mutual influences between the three areas. In this sense, two approaches can be distinguished [Fischer 2000, p. 5]:

- 1) cost accounting, if properly adjusted, may be seen as an element of cost control, which in turn is a subsystem of cost management,
- 2) cost management may be supplemented and assisted by cost control, with cost accounting serving as an instrument of the latter.

Cost accounting is, without doubt, the most important instrument of cost control and the most important source of information for control purposes. For this to be true, cost accounting must be tailored to the specific needs of cost control. On the one hand,

a company cost accounting system is stimulated by controlling. On the other hand, the effectiveness of cost control is largely dependent on the type of cost accounting used in a process [Rubik 2003].

Cost control, in turn, is subordinate to the process of cost management. This process may be approached from the viewpoint of the realization of the cost management function: planning, organization, motivation and controlling. Cost control serves to support all the above function, insofar as they relate to cost incurred by a company. Thus, it may be assumed that the most fundamental task of cost control is to provide support for cost management [Mensch 1998, as cited in Rubik 2003], while cost management involves a range of activities aimed at regulating the level of expenditures incurred by a company.

5. Conclusions

Cost control is one of the most important areas of controlling, as a function served based on the use of costing information. The main objective in this type of controlling is to improve company effectiveness, with the ultimate goal of increasing company financial result and profitability. For this purpose, it is essential to provide ample support for decision-making processes by supplying accurate information on the level of incurred expenses.

Cost control cannot be reduced to cost planning (budgeting), control over company effectiveness in reaching budgetary targets and analysis of deviations from targets. Cost control is also involved in control over company operations and the course of all economic processes. The main objective here is to provide favourable conditions for the realization of processes so as to bring the level of associated expenses to a reasonable minimum. For this to be effective, cost control should also take up anticipative measures and accurately forecast the potential impact of the evaluated decisions upon the future structure of expenses.

The information system of a company, and cost accounting as one of the most important elements of such a system, should be well-adjusted to the needs of cost control. Information fed by such a system should be tailored to the requirements of decision-making processes, both at operational and strategic levels. In addition, they should be subordinated to the realization of specific cost controlling tasks. Lastly, the cost accounting subsystem should be internally coherent, consistent and well-integrated with information obtained from other sources, particularly those that keep track of the material course of economic processes.

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