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ACCOUNTING INFORMATION AND CONTROLLING IN THE BANKING INDUSTRY

Summary: Controlling is a management support that provides relevant information for decision-making. The article examines the implementation of controlling in the commercial banks that operate in Bosnia & Herzegovina, Croatia, and Montenegro. The aim of the paper is to determine the level of development of controlling as one of fundamental management function. The study is focused on the relationship between accounting and controlling. The role of accounting as an important source of business information is explored in this context. The empirical results show that the cooperation between accounting and controlling leads to the provision of wider scope of accounting information for higher controlling performance.

Keywords: cost accounting, controlling, banks.

Introduction

The literature differ German and Anglo-Saxon types of controlling. Although within each type there is no consensus on controlling definition, one thing is clear – the main purpose of controlling. The controlling has undergone through several historical changes in its tasks, but it was founded as a support to (mostly senior) management.

The aim of the article is to determine the level of development of controlling as one of fundamental management functions.

The first stage is characterized by fulfilling duties mostly in domain of cost accounting with the orientation on the past, while the last controlling stage is strategically oriented using information provided by strategic management accounting. In this sense, the interrelationship between accounting and controlling

in the banking industry was investigated in this article. The empirical research is based on the survey addressed to controllers in 57 commercial banks that operate in Bosnia & Herzegovina, Croatia, and Montenegro.

The article is structured as follows. Next section explains the link between cost accounting, management accounting, and controlling with the historical overview. The third section is focused on three phases of controlling development, known as: recorder, navigator, and innovator. Research methodology is described in the fourth section, where research questions are defined and empirical results presented. Concluding remarks are stressed out in the final section.

1. Cost accounting, management accounting and controlling – interrelationship

Cost accounting is often regarded as specialized branch of accounting, which involves classification, accumulation, assignment, and control of costs. Accounting historians link the origins of cost accounting to the rise of manufacturing firms and, in a more detailed way, to efficiency control, pricing and decision-making problems faced in those organizations [Antonelli, Cerbioni and Parbonetti, 2002, p. 461]. Zambon and Zan [2007] found out that the emergence of accounting as a control instrument happened in Venetian Arsenal in the 16th century. Kaplan [1984, p. 391] argues that cost and management control information were of great importance supporting growth in large U.S. companies during the 1850-1925 period.

Management accounting is concerned with providing both financial and non-financial information that will help decision-makers to make good decisions. An understanding of accounting therefore requires an understanding of the decision-making process and an awareness of the users of accounting information [Drury, 2008, p. 5]. The information provided by management accounting is helpful in making policies and strategies, budgeting, as well as forecasting future plans, making comparisons and evaluating performance of the management.

The management accounting provides wider scope of relevant information than cost accounting, because cost accounting is more focused on quantitative data based on financial accounting. Nowadays, cost accounting is often perceived as part of management accounting. From historical perspective, management accounting emerged from cost accounting. Waweru [2010] identifies four stages of management accounting evolution. In the first stage, management accounting is seen as a technical activity necessary for the pursuit of the organizational objectives, while in the second stage it is seen as a management activity per-

forming a staff role to support line management through the provision of information for planning and control. In the third and fourth stages management accounting is seen as an integral part of the management process. With improved technology, information is available in real time to all levels of management. The focus, therefore, shifts from the provision of information to the use of the available resources to create value for all the stakeholders [Waweru, 2010, p.167].

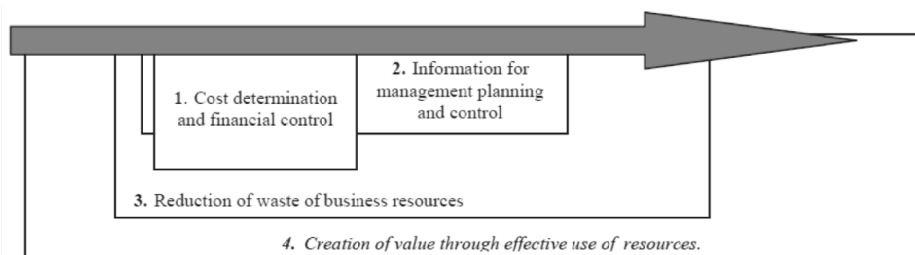


Fig. 1. The provision of information to the use of the available resources to create value

Source: [Waweru, 2010, p. 167].

Management is responsible for the company's success and controlling is responsible for defining the steps to achieve it, as well as for monitoring these processes. Controlling coordinates all management functions (from planning through organizing, motivating, and leading to control) and all the company's departments [Špac and Mošnja-Škare, 2009, p. 64]. Controlling has undergone decades of evolution, and herewith the concept got standardized in theory and practice; however it cannot be claimed that a unitary definition for controlling has already been achieved [Roman, Roman and Meier, 2014, p. 43].

As Figure 1 shows, information provided by management accounting is used for planning and control, so accounting and controlling can be considered as partners with the common goal. Although in theory and practice there is no consensus whether some activities have its place in accounting or in controlling, it is clear that there is relationship between these two functions. The notion of 'Controlling', as it is commonly used in German-speaking countries, may be regarded as an equivalent term for management accounting [Messner et al., 2008, p. 129]. Rickards [2005, p. 111] points out that the controllers became the internal experts for cost accounting questions and took on new challenges by preparing plans and budgets in addition to supervising their execution. There is a connection between accounting and controlling from the historical perspective. At its beginning, controlling was a part of the accounting system and their tasks were very similar, but fast changes in business environments presented a new dimension that produced the main task of controlling. This task was the prediction of future changes in order to keep the company prepared before they actu-

ally happen [Špac and Mošnja-Škare, 2009, p. 64]. Osmanagić-Bedenik and Lalovac [2007, p. 85] pointed out that coordination and integration of individual management subsystems is how controlling realizes its purpose.

The evolution of controlling can be summarized through following six concepts [Roman, Roman and Meier, 2014, p. 49]:

- controlling as an administrative record tracking (the 1980s);
- controlling as an administrative information system (end of the 1980s);
- controlling as planning and control (beginning of the 1990s);
- controlling as coordination activity (the 1990s);
- controlling as business administration (end of the 1990s);
- controlling as a system for coordinating decision-making process (the 2000s).

The above mentioned evolution of controlling indicates the interrelationship between cost and management accounting, but even more it is witnessed by tasks performed in the controlling practice. A catalogue of controlling tasks has been established based on surveys and their findings [Osmanagić-Bedenik and Lalovac, 2007, pp. 86-87]:

- professional help in establishing and enforcing planning, control, and briefing,
- cooperation in defining company and department goals,
- coordination of sub-targets and related plans with global aims and plans,
- business reporting and interpretations,
- professional help in establishing and implementing budgets,
- professional help in operative planning,
- professional help in cost accounting and calculating,
- professional help in implementing and organizing ADP (automatic data processing),
- business consulting for companies and departments,
- support in strategic planning, control, briefing and reporting,
- coordination of projects,
- special studies (problem identification and problem-solving).

It can be stated that controllers have a wide range of tasks and their position requires knowledge in the field of accounting as well as management.

2. Controlling phases and practices

In the German speaking literature the controlling development in the companies are often described at three levels: registrar (recorder), navigator and innovator [Mayer, 1993]. Although these phases are historically defined, this classification can be used when evaluating the level of development of the controlling function in a company.

The first stage of controlling characterizes the function of documentation, control, and rationalization of operations. Controlling at this initial phase is oriented toward the past requiring order and preciseness. It was most often performed by the head of accounting, whose position then carried the name of *registrator* [Simić, 2010, p. 312].

When controlling takes more important role in a company, recording becomes the job for the accountants, but controllers use accounting information for counselling purposes, controlling becomes *navigator*. This happens when the business environment is not so dynamic and the task of controllers is focused on setting the short-term direction and being oriented toward immediate activities.

When dynamic changes in the business environment demands for quicker adjustments, while, at the same time, company growth reduces the overall visibility of business processes and simultaneously the saturation of demand and increased supply forced companies to orient themselves *outward*, toward the competition in their branch and competition for market share (fighting to fulfil consumer desires, tastes, needs, etc.) the new phase of development emerges – *innovator*. Controlling in this stage is actively participating in the problem-solving process and being oriented toward strategizing for the future [Simić, 2010, p. 313]. The request for the control of the application of strategic goals led to development of sophisticated management control systems often defined as techniques and mechanisms which companies employ to pursue objectives, accomplish goals and successfully pursue strategies. The comprehensive study carried out on Croatian companies [Dropulić and Rogošić, 2014] showed that observed companies use more formalized management control systems. This finding leads to conclusion that accounting information is relevant for management control.

In the navigator phase, the controller often occupies the position of manager for planning and analysis. Subsequently, the controller's tasks shifted from operational duties to strategic planning and planning company policy and goals in the phase of innovator. The last phase emerges when company is constantly exposed to problems and events, and the dynamics and complexity of changes are quite high, while information from the environment was quite uncertain and forecasts less and less useful [Simić, 2010, p. 313]. Through their development stages from "recorder", through "navigator" to the "innovator", controllers are today the ones that need to optimize the operations for the benefit of stakeholders [Vitezić and Vitezić, 2015, p. 178]. Stakeholder orientation can be considered as the next developmental stage of controlling that should be in line with the concept of corporate social responsibility.

3. Research questions, methodology and results

3.1. Research questions

Previous research [Osmanagić-Bedenik, 2006] revealed that there is collaboration between accounting and controlling in Croatian companies and presented various accounting methods and techniques that are used for controlling purposes. This study is focused on controlling practices in the banking industry. The aim of this empirical research is to determine:

- the controlling function deployment,
- the position of the controlling,
- the development stage of the controlling
- the level of cooperation between controlling and accounting, and
- the effect of controlling on the accounting practices.

The research questions are structured as follows:

1. Do the banks have developed controlling function that is strategically oriented (“innovator”)?
2. Is there an interrelationship between accounting and controlling and how it is reflected in the practice?

3.2. Research methodology

The empirical research was conducted in the year 2014 and included the banks that perform in Bosnia & Herzegovina, Croatia, and Montenegro. The survey was designed in order to have an insight in controlling practices of the banks. The questionnaire was sent via e-mail to all commercial banks (29 banks that operate in Croatia, 17 banks in Bosnia & Herzegovina, and 11 banks in Montenegro). It was addressed to the controllers. After several repeated e-mails, the response rate was 35% (meaning that 20 banks have answered the questions).

3.3. Empirical research results

The most respondents were from small banks (50%) and from medium-sized banks were 25% as much as from large banks. Most of the observed banks have organized controlling department (80% of the banks).

In order to determine the controlling department positioning, respondents were asked to whom controlling manager is answerable. Most of them (13) responded that controlling manager answers to Chief Executive Officer or Board

of Directors. This means that controlling department is high on organizational hierarchy, independent from all other departments (like accounting and finance) with the primary task to consult senior management.

The importance of the controlling in the banks can be perceived by the number of employees (controllers) that is shown in Fig. 2.

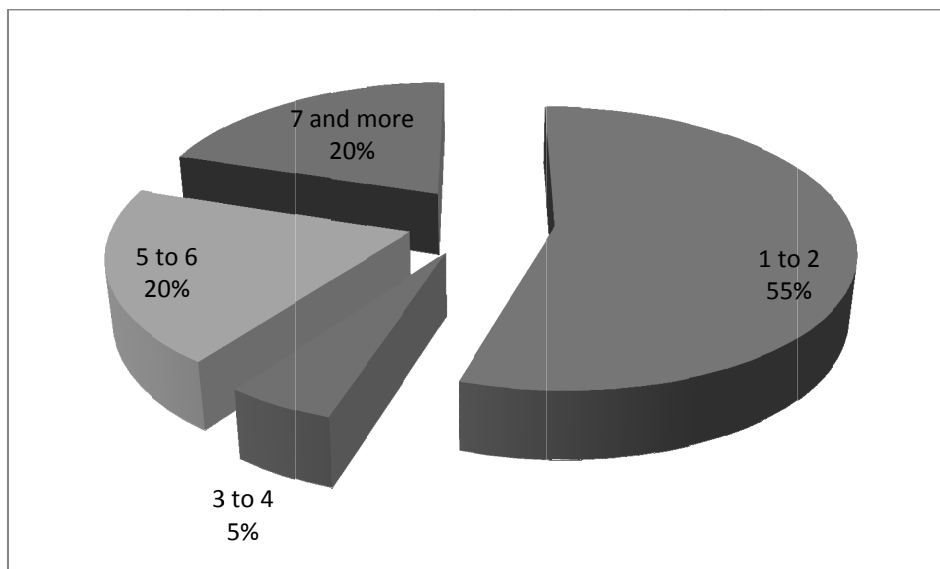


Fig. 2. Number of employed controllers in the banks

Source: Own elaboration.

The results presented in Fig. 2 indicate that most of banks (55%) have only one or two employees that perform controlling tasks. Only one bank has 3 or 4 controllers, but 20% of banks have 5 or 6 people in controlling department. The same percentage (20%) goes to banks with the controlling department that employs 7 and more controllers.

Since the controlling in the transition countries is a rather new business function, the respondents were asked the oldness of controlling in their bank. The Fig. 3 shows that in most cases (50%) controlling operates between 5 to 9 years.

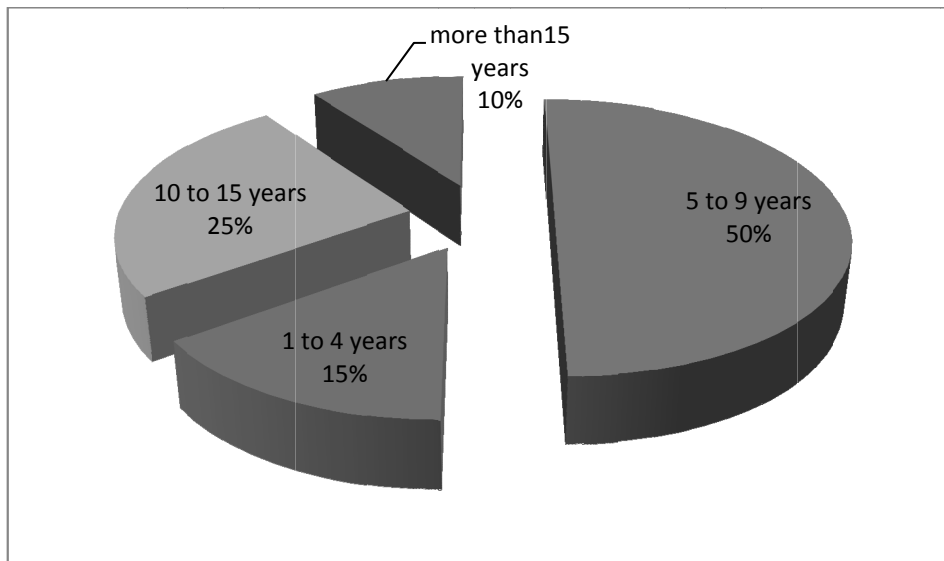


Fig. 3. Years of the implementation of controlling in banks

Source: Own elaboration.

As age frequently determines the stage of development, it was assumed that controlling in the banking sector should be at the highest level – innovator. The empirical results are presented in Fig. 4.

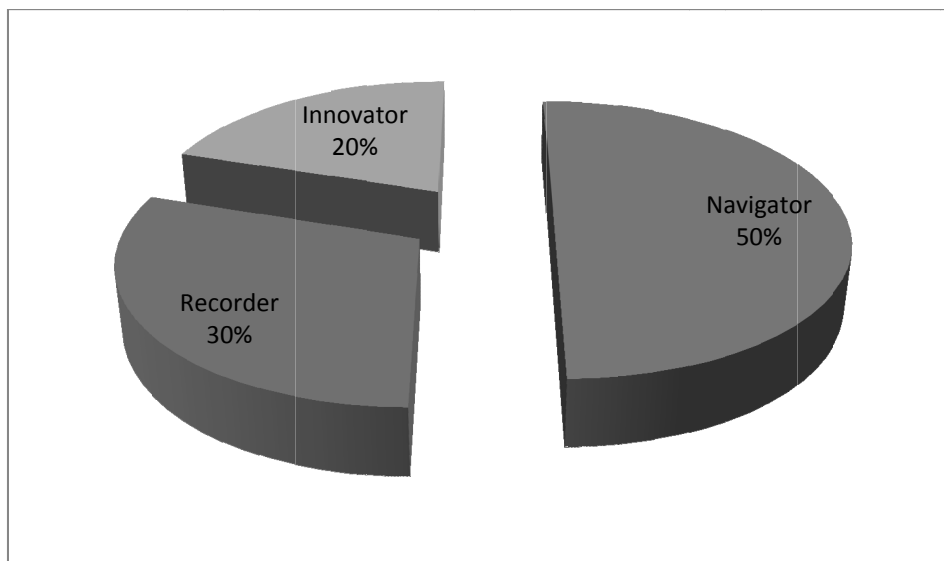


Fig. 4. The stage of development of controlling in banks

Source: Own elaboration.

According to self-assessment of controlling practitioners, 50% of them claim that controlling in their bank can be classified as navigator. Only 20% of banks have controlling function developed and characterized as innovator, while 30% of respondents think that in their bank controlling is still at the first stage (perceived as recorder).

In order to determine the frequency of cooperation between controlling and accounting department, the respondents were asked to evaluate it at the Likert-type scale from 1 to 5 (1 – never, 2 – rarely, 3 – frequently, 4 – very frequently, 5 – always). The results are following (Fig. 5).

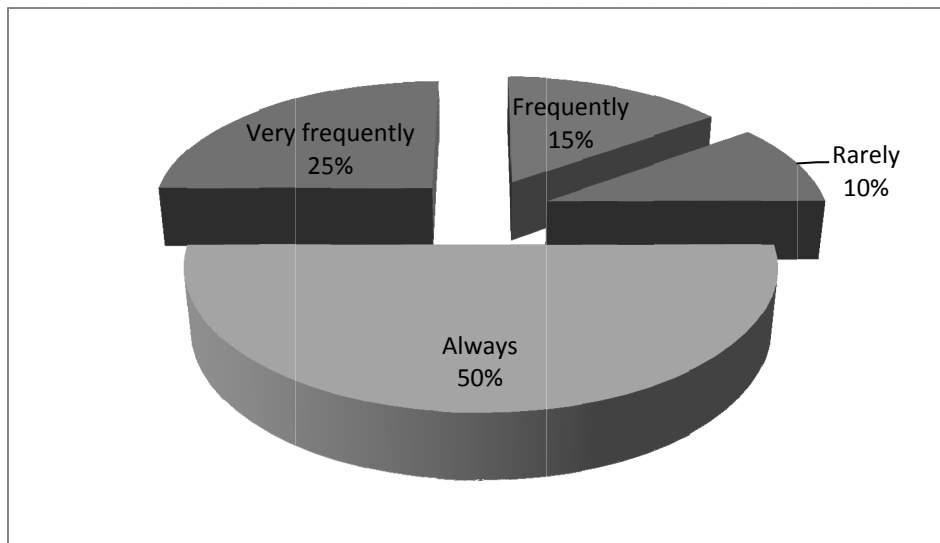


Fig. 5. The level of cooperation between controlling and accounting in banks

Source: Own elaboration.

As Fig. 5 shows, there is a strong cooperation between controlling and accounting department in the observed banks since 75% of respondents claims that they always or very frequently collaborate.

The following research results indicate that cooperation between accounting and controlling is a two-way. First, the controllers were asked to evaluate on the range from 1 (strongly disagree) to 5 (strongly agree) the level of accounting information transfer to controlling.

The most of controllers rated the level of transfer of accounting information very good since 75% of them mostly agree (Fig. 6).

The cooperation between accounting and controlling, that begins with information transfer, often leads to creation of more relevant information. Controlling gives an impulse for formation of boarder scope of accounting information

using it for thorough examination of business transaction as well for guidance. The results of the continuous collaboration between accounting and controlling are presented in Fig. 7.

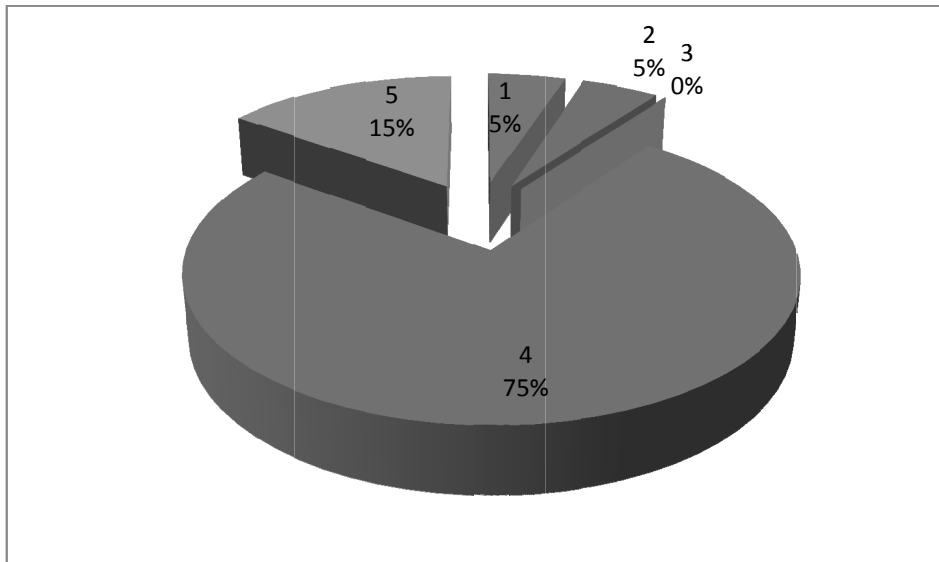


Fig. 6. The level of accounting information transfer (from accounting to controlling)

Source: Own elaboration.

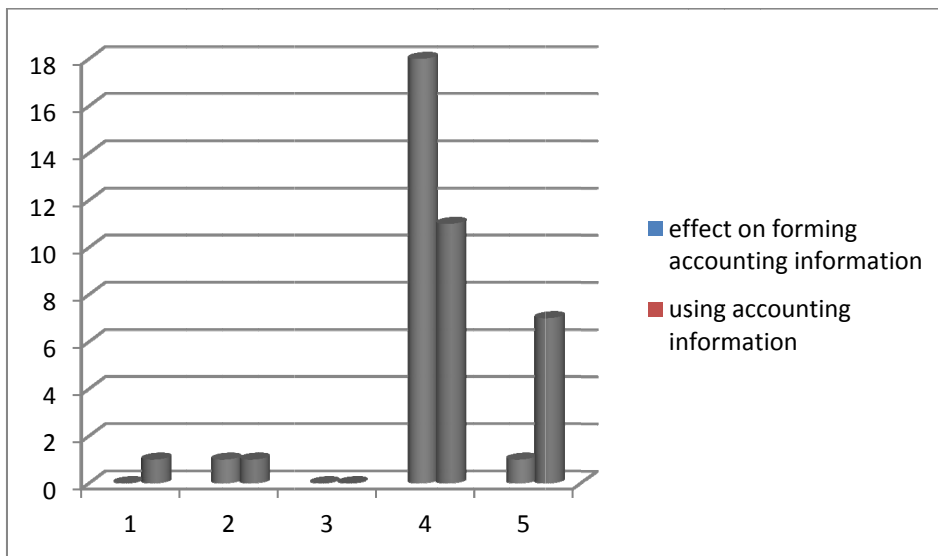


Fig. 7. Controlling effects creation and use of accounting information in banks

Source: Own elaboration.

On the scale from 1 (strongly disagree) to 5 (strongly agree), most of respondents think that in their bank controlling has significant effect on forming accounting information. They rated even better the use of accounting information for the controlling tasks. Accounting information enables controllers to have a wider insight in bank processes making them more informed. In that context controllers are able to suggest the management better business decision.

Conclusions

This article gives an insight on controlling practices in the banking sector. The cross-country empirical research was conducted in order to determine the developmental stage of the controlling functions in the observed banks.

The results show that most of the banks (80% of observed subjects) have controlling tasks performed in controlling department. The position of the controlling department suggests that controllers have counselling role providing guidance to senior management. Although the controllers in the banks have great role, most of the banks (55%) employ only one or two experts in this field. The reason for low number of controllers in the observed banks can be explained with the rather new business function in those post-transitional countries.

According to the self-assessment of the controllers, it can be stated that 50% of the banks have controlling on the navigator stage, while 30% is classified as recorder and only 20% as innovator.

The empirical results show a rather tight connection with the accounting department. Controllers use accounting information very often and require more data from cost and management accounting in order to have better ground for counselling management. Controlling has a great effect on creation of additional accounting information in accounting department used for thorough analyses and for planning purposes.

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INFORMACJA KSIĘGOWA I CONTROLLING W SEKTORZE BANKOWYM

Streszczenie: Controlling stanowi wsparcie systemu zarządzania poprzez dostarczanie odpowiednich informacji dla celów decyzyjnych. Artykuł przedstawia implementację controllingu w bankach komercyjnych funkcjonujących w Bośni i Hercegowinie, Chorwacji oraz Montenegro. Celem artykułu jest wykazanie związku pomiędzy poziomem rozwinięcia systemu controllingu a realizacją podstawowej funkcji zarządzania. W opracowaniu skupiono się na relacji pomiędzy rachunkowością a controllingiem. Przedstawiono system rachunkowości jako ważne źródło informacji biznesowej. Część empiryczna prezentuje wzajemne oddziaływanie rachunkowości i controllingu przekładające się na możliwość wykorzystania szerszego zakresu informacji generowanych przez system rachunkowości do lepszego funkcjonowania controllingu.

Słowa kluczowe: rachunek kosztów, controlling, banki.