

## **PERFORMING AN EFFECTIVE MANAGEMENT CONTROL SYSTEM**

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**Key Words:** effectiveness, instruments, indicators, adjustment, analysis, change.

**Abstract:** The current article describes the instruments used by corporations in their management process, and their interaction with corporations' structure and strategy. We emphasize the requirements for the management control system in order to facilitate manager's mission to conduct the business. We describe the implementation of an appropriate management control system, considering the company's strategic goals, and also its audit.

Management control system consists of a multitude of tools employed by an organization in order to manage according to its structure and strategy. The main component of the management control system is information, which is the basis of diagnosis and goals setting and achievement. Within this system we also identify the action.

A modern definition of management control, as stated by R. Simon in 1995, emphasizes the importance of organization's informational system, through which the manager receives information on the state of the company and facilitates the decision making process. The management control consists of the processes and procedures based on information, used by the management for maintaining or adjusting certain configurations of the organization's activity.

As stated above, information plays a major part, with respect to its quality, i.e. accuracy, fastness, clearness, compliance with reality.

Information becomes indicators that express the entire activity of an organization. These indicators must meet the following requirements: coherence, availability and predictability. They can be internal indicators (measuring the activity's effectiveness and efficiency), market indicators, evolution indicators, activity indicators, environment indicators, impact indicators, financial indicators, analysis indicators, etc.

All these indicators are determined using management control tools. They evolved in time from the strictly accounting ones (financial accounting and management accounting) to the forecasting phase (planning, budgeting), i.e. from the financial to the strategic characteristics (strategic planning, benchmarking). Thus, management control tools became proactive.

Management tools mainly reflect three categories: budget, cost calculations and activity control. We must emphasize that in practice there are a lot more tools employed, most of which cannot be included in a predefined category (stocks analysis, customer analysis, margin analysis, profitability analysis, treasury analysis).

For a management control to efficiently perform and to become a fundamental tool for managers, it must meet the following conditions:

- a) It must allow identification of possible options, expressed in financial and nonfinancial measures;
- b) It must adapt to the organization's environment, style and culture, to the informational support and to the existing procedures;
- c) It must develop a coherent strategy model;
- d) It must maintain an appropriate cost/benefit ratio.

The management control system is included in an organization that is part of a coherent system; thus, the company first sets its values and mission, which represent its reason for existence; it develops the strategy for development, according to which it will allocate the

resources; it sets the organizational goals; it determines the administration type (decentralization degree, organizational culture, structure); within this system, management control plays the most important part, being essential for an efficient performance. In order to be efficient, the management control system must be in accordance with the following:

- Mission;
- Strategy;
- Structure;
- Goals;
- Current actions.

Consequently, a perfectly integrated management control system in the organizational system guarantees that the company's activity is in line with the strategy. Communication between goals and each member of the organization's actions is essential and it must be done through specific tools that ascertain the strategy knowledge and its acceptance.

Management control consists of two correlated issues:

- A driving system describing performance mechanisms, based on learning and strategic goals explanation;
- An incentive system that ensures converging actions from the organizations' members.

There are several mistakes frequently occurring within a management control system:

- Lack of coherence between strategy and control system, generating incomplete implementation of certain measurement tools.
- Lack of coherence between incentive system and driving system, generating a disagreement between goals and behaviors.

The mandatory conditions to be met by an efficient management control system are:

- simplicity, knowledge, acceptance;
- adequate behaviors;
- adjustment to the needs and internal means of the organization;
- adjustment to change;
- reaction to organization's needs (forecast and control, flexibility, participants involvement, using global tools);
- a smaller cost than benefits.

The management control system evolved in time, currently being characterized by flexibility, simplicity, adaptability to change, interactivity, decentralization, tools negotiation. Its implementation becomes the implementation of change.

The implementation of a modern management control system must follow certain steps:

- a) Environment study. The very first action consists in gathering and analyzing all available information regarding the organization's environment. If there is already implemented a management control system, its current state must be analyzed in order to determine the actions of improving it. In the case there is no management control system implemented, we must analyze the company's activity field, designing the system that must be developed, considering both opportunities and limitations of the economic environment. We must take into account the economic, social, commercial and regulating factors. Of great importance is the knowledge of success key-factors and of the competitive advantage. Each operating field is characterized by specific success key factors that may generate profitability. The success key factors measure performance and determine hierarchies in the operating field. Each company has a specific, unique feature: the competitive advantage. It must be decisive, solid and protectable in order to contribute to the profitability of a company.

- b) Internal analysis. It must be objective. The detailed information must reflect the organization's activity, both past and present, and is the basis for forecasts. This analysis will emphasize the advantages and deficiencies of each sector, providing necessary adjustments.
- c) Organization's structure diagnosis. The management control system adjusts to structure.
- d) The existing management control system diagnosis. It unveils the inappropriate characteristics the need to be changed.
- e) The last step consists of developing plans and ways of action for implementing the new management control system. At this stage, after analyzing various alternatives, the optimal action is chosen, in accordance with the organization's strategy.

R. W. Hilton, M. W. Maher and F. Selto, in their work "Cost Management: Strategies for Business Decisions" (2003), describe the implementation of ABC system, emphasizing the correspondence between the stages of implementing a new management system and the actions specific for every step. Thus:

1. The need of change is identified; the flaws of the existing system are verified and the possible adjustments are determined using the ABC method.
2. A team able to lead the change is created. The team must be multidisciplinary, considering that the change is systemic.
3. A vision of change and strategy is created. This method's benefits are presented and communicated in order to take decisions, understand activities, settle internal conflicts, identify activities and indicators.
4. The vision and change strategy are communicated; meetings with all departments take place, in order to discuss opinions, accept suggestions and criticism.
5. Innovation is encouraged and obstacles are removed; during this phase the top management is involved in the project development, in order to identify solutions to remove various obstacles.
6. The short term success is verified; it is necessary to implement the system in a test department.
7. Successful results are employed; the implementation benefits are compared and the way they can be expanded to the entire corporation are presented.
8. Change culture is improved; thus, from the incipient phase of the implementation, the idea of system development and improvement is communicated throughout the organization's departments.

The management control system must be periodically assessed through auditing, in order to provide a clear image of advantages, limitations and segments requiring improvements. Also, the audit must verify if the cost generated by the operation of the management control system is reasonable.

The audit frequency must not be mechanical, but adjusted to each organization characteristics. It must take into account certain changes or signals received from within the company, such as: change of strategy, lack of non-financial indicators, new technologies, new processes implemented, a new structure, decreasing market, lack of management reports, cost limited monitoring, preference for individual work, success key factors unable to be identified.

These signals imply immediate auditing because they emphasize dysfunctions in the management control system. The audit will control the system operation, its adaptability to the organization's needs. The tools used are questionnaires and individual interviews with the involved personnel. The questions must be simple, clear, but probative and must refer to the information received from the organization, the information which would be needed,

the frequency of this information, the involvement in the decision-taking process, ideas of current system improvements. The results must be collated as assessment tables, using as analysis elements the requirements, the adaptability, the availability and the coordination according to certain quantifiable assessment criteria.

For example, Guedj et al suggest a management control system called OMAR (goals, mastery, assessment, recognition), based on the interaction between the tool and the actors. The authors intend to analyze the system based on the four elements listed above, using an assessment table.

Regarding the goals, this system verifies if the company's goals and mission are reflected in the actors' actions, if they are known by all actors and the ways to achieve them. In communicating them, the company can use the management through objectives or the organizational culture.

Mastery, which is a substitute for management, identifies both the positioning methods toward targets and the adjustment possibilities. Thus the company has a continuous auto-diagnosis, that determines appropriate actions, anticipating the global outcome and allowing for an optimal use of resources and information. It also monitor the actors having control authority, the method for identifying biases and the adjustment measures, the action plan and the responsibilities for this actions, the tools for activity analysis.

A very sensible element of this management system is the assessment of organization's members, all motivational measures converging toward goals achievement. First of all, it must be identified an existing assessment system and its criteria (mission, goals, communication); it must determine the persons responsible for the assessment (group or individual) and its frequency; at global level it must be considered if the criteria used were appropriate or they generated dysfunctions.

Recognition takes into account the implementation of the positive management, based on incentives. First of all it must be determined the reason for using incentives (for actions generating activity improvement, successes or just for being in accordance with the rules). Then it must be observed if the recognition is done using financial means or by promotion. Finally, it must determine if the recognition method stimulates or not the creativity and talent.

In conclusion, we can state that operating an efficient management control system depends on choosing and implementing the appropriate management tools, considering their interdependence on one hand, and the behaviors of organization's members and the reaction within a company on the other hand.

The improvement of a management control system should not be limited to the identification of new tools, being needed a deeper reform that includes the existing management system.

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