MANAGEMENT CONTROL - PERFORMANCE MANAGEMENT TOOL OF THE ECONOMIC ENTITY

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Abstract: *This paper presents the importance of management control as a management tool of economic entities, involving automatically the control of entity performance.*
Management control is an information system which accumulates and manages information, in order to assess and manage business performance organization. Management control along with budgetary work, calculation of cost and piloting is an important management tool.
Aspects of management control are current. Control was and is present in all social and economic realities sides. Through control, managers assure the dynamic, real and preventive information which raises the value of findings and the quality of decisions, without the optimal functioning of businesses being inconceivable.
Keywords: management, management control, performance, budget, planning.
JEL Classification: M41, M11.

1. Introduction to the concept of management control

Historically, management control was developed in U.S. at the beginning of the century, having as base support the economic rationality and the search efficiency and the philosophy based on human behaviour.

In 1916, Fayol Henri formulated one of the first definitions of control as it pertains to management: *Control consists of verifying whether everything occurs in conformity with the plan adopted, the instructions issued, and principles established. It['s] object [is] to point out weaknesses*

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and errors in order to rectify [them] and prevent recurrence. (Fayol, H., 1949, pp. 107-109)

In 1970, Robert J. Mockler presented a more comprehensive definition of managerial control: *Management control can be defined as a systematic effort by business management to compare performance to predetermined standards, plans, or objectives in order to determine whether performance is in line with these standards and presumably in order to take any remedial action required to see that human and other corporate resources are being used in the most effective and efficient way possible in achieving corporate objectives*. (Mockler R. 1970, pp.14–17)

This American model was the inspiration and starting point for the countries of Europe, and not only, when it knew an expansion from the 1930s and was generalized in the years 1970-1980.

According to the Explanatory Dictionary of Romanian language, control is defined as *continuous or periodic analysis of an activity,a situation etc. going to follow it and take measures to improve it; as well as continuous, periodic or unannounced verification, made in any field in order to know the realities and how to develop the activity in respective field in order to prevent or to liquidate any gaps and to improve the activity*. (Breban, V., 1992, p. 211).

In 1999, Boisselier asserts: "Management control looking to conceive and develop information tools designed to allow leaders to act, making the global economic coherence between objectives, means and achievements. It should be considered as a useful information system for pilotage company, because it controls the effectiveness and efficiency actions and the means to achieve objectives" (Boisselier, P., 1999, cited by Puțan A et al, 2012, p. 82).

In the literature, management control is defined as the process through which managers ensure that resources are obtained and used efficiently, effectively and relevance to achieve the organization objectives. From this definition it follows that a management control system incorporates a process and structure. The process consists of all the actions taken and structure looks the organizational adaptations and construction information that facilitates the process.

Modern management of any economic entity involves developing a strategy enabling it to obtain the long term, maximizing the benefits from its action in a particular socio-economic environment. Management control was created in large companies to check if the actions taken in the short time shall be entered in the sense of strategic orientations. In other words, management control is designed to facilitate the enterprise pilotage by managers in their operational decisions and the short term in order to fulfil the strategic objectives of the company.

Each economic entity has a set of devices that have the role to provide an assurance of decisions and actions quality, referential called organizational control. Controlling is universal at level of a company because it applies to all decisions and all the actions that take place, from where it results the need of a structure of organizational control. Thus, depending on decision and action levels that occur in an enterprise, there are three types of control:

- *Strategic control* aimed strategic decisions and actions of managers, with long-term effects, being a control oriented towards the external environment of the company;
- *Management control* allows the enterprise to ensure if the steering decisions are coherent with each other and as, in the short term, they compete to fulfil the strategic objectives;
- *Operational control*, consists in ensuring that basic operations are carried out according to predetermined rules and the activity of production, trade policy, administrative activities and so on, being a control oriented towards the enterprise interior.

From those seen, management control serves as a link between strategic control and execution control being the guarantor of transition from long-term to short and vice versa.

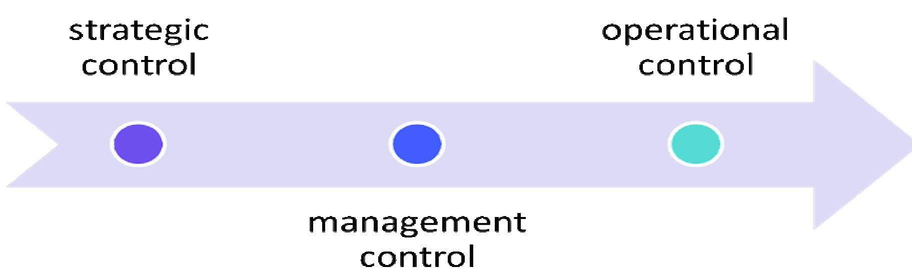
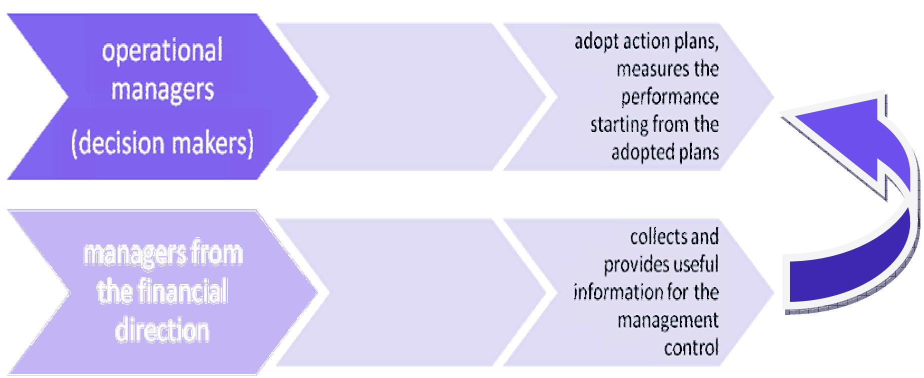


Figure no.1. Bond between the three types of management control

The objectives of an enterprise, such asa new product, a new market access and so on, fixed during strategy formulation, are elements for management control. However, the acquisition of new experiences as a result of corrective actions as well as continuous evolution of the context can lead managers to reformulation of these goals.

The action field of management control is vast because it operates at the level of whole company on two main axes of action and responsibility:

- at a level is looks the use of management control by operational managers, ie those decision makers who incorporate their judgments and actions in management control system, adopt action plans to achieve the objectives and measures its performance based on these;
- to another level lies managers from the general direction of company especially those grouped in the financial direction, responsible for economic and financial equilibrium of the company. These managers collect, summarize and present useful information for the exercise of management control. The calculations and their analysis are subject to judgment of operational managers. So, management control ensures the consistency between strategic goals and operational decisions.



Figureno. 2. The main area sof action and responsibility of management control

Management control finality is to provide useful information for managers'decisions. Is why, we consider necessary the discussion concerning the link between information, decision and management control, decision representing, generally, the transformation of information received by a decision maker in action within an organization or a part of the organization.

2. Management control system- a system for collecting and using information

Robert N. Anthony and Vijay Govindarajan (2007) defined Management Control as *the process by which managers influence other members of the organization to implement the organization's strategies*. Management control systems are tools to aid management for steering an organization toward its strategic objectives and competitive advantage. Management controls are only one of the tools which managers use in implementing desired strategies. However strategies get implemented through management controls, organizational structure, human resources management and culture. (Anthony, R. & Govindarajan, V., 2007, p. 6).

Management control system is an integrated technique for collecting and using information to motivate employees' behaviour and to evaluate performance (Horngren, C., Sundem, G. & Stratton, W., 2005, cited by Higgoda, 2012, p. 2). According to Simons, management control systems are the formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities (Simons, 1995, p. 5).

For developing a management control system, managers use different tools that can guide action and decision making (Gervais, M., 1994, p. 21):

- information concerning medium and long term plans;
- punctual economic studies;
- extra-accounting statistics which relate to current operations;
- financial accounting and financial analysis;
- management accounting.

These tools regroup the indicators which are based on an enterprise's informational system by each of these elements depending on how management control will order and use knowledge to management actions.

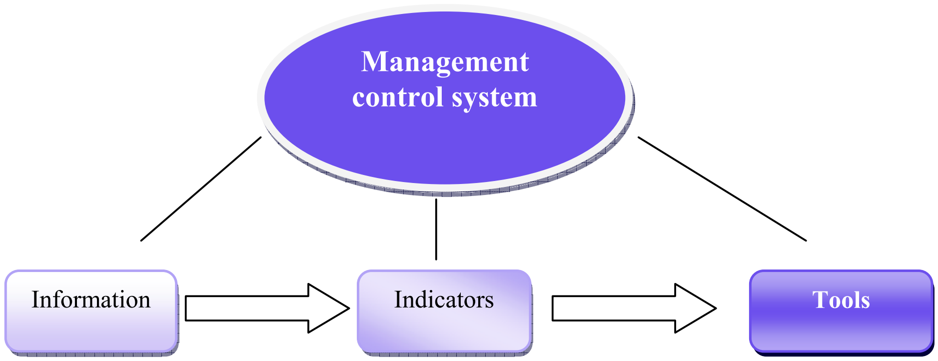


Figure no.3. Management control system components

Source: Albu, N. & Albu, C. 2003. Instrumente de management al performanței, Control de gestiune, Volumul II, p. 241.

Information, component of management control system must be coherent and provide reliability of the informational system because "the quality information constitutes a competitive factor for the enterprise". (Albu, N. & Albu, C., 2003, p. 241).

As regards indicators their role is to track all aspects of business. Tosuccessfully fulfil theirrole,a good indicatorshould provide informationto the future,to be coherentwith thebusiness strategy, to beavailablein timeand alsoeasy tounderstand and interpret.

Management tools, the third component of management control, is an evolving medium. In the category of management tools are included three classes of tools that are placed in the area of accounting to forecasting side, from a financial dominant to a strategic one.

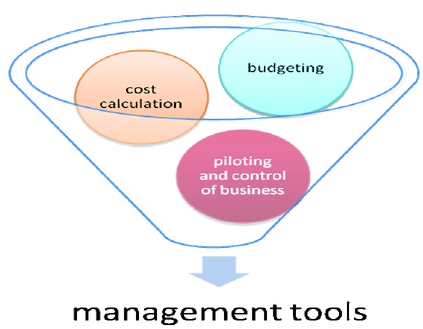


Figure no 4. Management tool sclasses

The control systemis designed to help managers to pilot activities, in order to achieve their desired goal, must be adapted to the environment in which will function, to the enterprise culture, as well as to the existing information support. This should contain two “subassemblies” (Albu N., Albu C., 2003, p. 245) to describe performance mechanisms.

Figure no.5. Control system subassemblies

The pilotage system describes the performance mechanisms based on learning and translation ofstrategic objectives, and the incentive system is intended to create convergence of goals and behavioursin the organization. (Albu, N. & Albu, C., 2003, p. 245).

According to the current trend it tends to a management control that provides the performance piloting and to a management control as a management tool of changes. The performance pilotage imposes to management control the responsibility to follow the evolution of efficiency and effectiveness. In defining management control, efficiency term is used in a technical sense and signifies how resources are used, i.e. the result obtained per unit of employed resources (effect/effort). Through the resources terms it means all factors involved in the economic cycle of business: fixed assets, stocks, financial resources, information, environmental capital and human resources. And the term of effectiveness represent the ability of the organization to achieve its objectives.

Performance analysis follows the management organization on different levels, the establishment of information system for people with decision-making positions, the modeling of activities so that it contributes to the achievement of objectives.

3. Conclusions

Aimed at monitoring and verification of business development at all levels of its, management control owes much to Anthony, who considered it a system of governance, coordination and supervision designed to ensure harmonious integration of the whole enterprise resources.

The turbulence of political, economic and social environment increased significantly different levels of uncertainty in terms of management. Thus, reduction of uncertainty has become one of the purposes and the strengths of management control.

The management control is the main instrument by which management leads an organization in the most efficient way. It represents a process by which hare analyzed the actions and the performed activities, are evaluated the obtained results and are elaborated conclusions so that they can have decisions and action. With management control it is aimed the achievement of the objectives and enables the management to evaluate and correct the taken decisions.

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