USING MANAGEMENT CONTROL TO ALIGN ORGANIZATIONAL STARTEGIES AND TO MEASURE PERFORMANCES

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Practice shows that, in order to improve internal and external communication, managers need to increase the request of information about their business administration. So, for this, they need a complementary system which assures them this kind of information and data. The related actions in this way are: forecast and control. Management control appeared as an answer to the evolving concerns toward economic efficiency and represents a privileged tool of management, defined as the process through which managers assures themselves that the resources are acquired and used with efficiency, efficaciousness and pertinence for realizing the objectives of an organization.

Keywords
management control, strategy, performance

JEL Classification: M - Business Administration and Business Economics; Marketing; Accounting

1. INTRODUCTION

The American Accounting Association defined accounting in 1966 as the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information. This definition is important because it recognizes that:

-accounting is a process which main preoccupation is to capture business events, record their financial effect, summarize and report the result of those effects.

-it is concerned with economic information, both financial and non-financial and its purpose is to support "informed judgments and decision" by users in order to record, report and interpret business transactions.

Meanwhile accounting is seen as fulfilling three functions:

1. ***Scorekeeping*** – capturing, recording, summarizing and reporting financial performance.
2. ***Attention- directing -*** drawing the attention of managers to, and assisting in the interpretation of, business performance, particularly in terms of the comparison between actual and planned performance.
3. ***Problem-solving*** – identifying the best choice from a range of alternative actions.

The attention-directing and problem-solving functions are taking place through three inter-related functions:

- *Planning* – refers to establishing goals and strategies to achieve goals.
- *Decision-making* – using financial information to make decisions
- *Control* – using financial information to maintain performance as close as possible to plans.

The mentioned inter-related functions are important and relevant as increasingly businesses have been decentralized into many business units and managers need financial and non-financial information to develop and implement strategies for the future; making good decisions about products, services and their prices; and ensuring that plans are put into action and are achieved. This can be done by ***management accounting*** and ***management control***.

2. RESEARCH METHODOLOGY

This article is a theoretical study and its purpose is to present the relationship between management control, performances and strategy using information and data gathered from the existing literature on national and international level.

After covering the available literature in this field, based on a qualitative analysis, we want to demonstrate in this article that management control becomes an effective informational system and assures organizational coordination and development, capable to answer to 3 basic questions: ***What for?***, ***For who?*** and ***On who?*** The outcome becomes strategic for the organization on a long term and for all the actors within it.

3. MANAGEMENT CONTROL – ROLE AND NECESSITY

Anthony defined management control as: "the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives"[534]. In time Anthony developed a model that differentiated three planning and control functions:

> **-Strategy formulation** was concerned with establishing goals and objectives, strategies and policies, defining resources and policies used to achieve those objectives and goals. This function is oriented towards external environment and operates with strategic decisions on long term. This fed into
>
> **-Management control**, which was concerned with the implementation of strategies and assures that resources are obtained and used effectively and efficiently in order to achieve objectives. This function operates with tactic decisions.
>
> **-Task control**, which comprised the efficient and effective performance of individual tasks. This function is oriented towards internal environment and operates with current decisions.

Otley argued that such a separation was unrealistic and that management control was "intimately bound up with both strategic decisions about positioning and operating decisions that ensure the effective implementation of such strategies".[535]

Building on Anthony's earlier definition, in 2000 Anthony and Govindarajan defined management control as "a process by which managers at all levels ensure that the people they supervise implement their intended strategies"[536].

In 1995 Berry *et al.* admitted that management control: "is the process of guiding organizations into viable patterns of activity in a changing environment ….. managers are concerned to

534 Anthony, R. N. Planning and Control Systems: A Framework for Analysis. Boston, MA: Harvard Business School Press, 1965

535 Otley, D. Management control in contemporary organizations: Towards a wider framework. Management Accounting Research, 5, 1994, pg. 298

536 Anthony, R. N. and Govindarajan, V. Management Control Systems. (10th international edition). New York, NY: McGraw-Hill Irwin, 2000, pg.4;

influence the behavior of other organizational participants so that some overall organizational goals are achieved"[537].

All and all management control is a system of rules, a collection of inter-related mechanisms and consists of formal, information-based routines and procedures used by managers to maintain or alter patterns in organizational activities.

Managers use internally and externally generated information to govern their organizations. Because one of the managerial functions requiring information is control we can talk about **management control system (MCS)** in every organization.

According to Anthony and Govindarajan a Management Control System has the following components:

1. A ***detector*** or ***sensor***, which is a measuring device that identifies what, is actually happening in the process being controlled.
2. An ***assessor***, which is a device for determining the significance of what is happening. Usually, significance is assessed by comparing the information on what is actually happening with some standard or expectation of what should be happening.
3. An ***effector,*** which is a device that alters behavior if the assessor indicates the need for doing so. This device is often called "feedback."
4. A ***communications network***, which transmits information between the detector and the assessor and between the assessor and the effector.

Most businesses have a variety of control systems in place. For example, a control system may reflect a set of procedures for screening potential suppliers or employees, a set of criteria to evaluate potential and existing investments, or a statistical control process to monitor and evaluate quality. Regardless of the specific actions taken, a management control system should serve to guide organizations in designing and implementing strategies such that organizational goals and objectives are achieved.

4. The Impact of MANAGEMENT CONTROL ON STRATEGY AND PERFORMANCES

To maintain a competitive position a company must generate the information necessary to define and implement its organizational strategies. Strategy is the link between an organization's goals and objectives and the operational activities executed by the organization. In the current global market, firms must be certain that such a linkage exists.

Strategy can be defined as: "the art of creating value. It provides the intellectual frameworks, conceptual models, and governing ideas that allow a company's managers to identify opportunities for bringing value to customers and for delivering value at a profit. In this respect, strategy is the way a company defines its business and links together the only two resources that really matter in today's economy: knowledge and relationships or an organization's competencies and its customers".[538]

The accomplishment of a strategy reclaims taking in consideration the different management horizons:

-*The strategic horizon* – settles the goals and objectives on long term, 5-10 years, and as a result of these elaborates strategic plans.

-*Budgetary horizon* – translates into practice the established goals and objectives on medium term using budgets and operational plans.

-*Operational horizon* – elaborates, applies, pursuits and analyses action plans.

Management control acts within each horizon using specific instrument on every level and the controlling process is bounded to the decision making process. The Management Control Systems (MCS) enables managers to perform strategic analyses on issues such as determining

537 Berry, A. J., Broadbent, J. and Otley, D. The domain of organizational control. In A. J. Berry, J. Broadbent and D. Otley (eds), Management Control: Theories, Issues and Practices, London: Macmillan, 1995, pg. 4

538 Richard Normann and Rafael Ramirez, From Value Chain to Value Constellation: Designing Interactive Strategy, Harvard Business Review (July–August), 1993, pg. 65;

core competencies and organizational constraints from a cost-benefit perspective and assessing the positive and negative financial and non-financial factors of strategic and operational plans.
Johnson and Kaplan emphasized the importance of non-financial indicators arguing that[539] short-term financial measures will have to be replaced by a variety of non-financial indicators that provide better targets and predictors for the firm's long-term profitability goals, signifying this as a return to the operations based measures that were the origin of management accounting systems.
Within organizations performance measurement has been and it is dominated by management control systems that are focused on control and than improvement. Performance measurement goes beyond the boundaries of traditional management accounting and could be achieved by accountants having a better understanding of the operational activities of the business and building this understanding into control systems design; connecting control systems with business strategy, which has to some extent been addressed by the proponents of strategic management accounting (see below); and focusing on the external environment within which the business operates, through a value-chain based approach.
Anthony once said, on one hand, that management control is the process through which managers use their power to influence other members of the organization to implement strategies, to realize goals and objectives and, on the other hand, it integrates facts on long, medium and short terms, having well determined implications in human factors, objectives and assignments.

5. CONCLUSIONS

The management of an organization involves two key areas: planning and control. Every organization requires plans to determine priorities and resource allocation and a mechanism by which execution against the plans can be controlled.
Management control is the process by which management ensures that the organization carries out its strategies effectively and efficiently. By management control managers look to conceive and to elaborate reporting instruments aimed to allow the leaders to act realizing economical, global coherence between objectives, resources and performances. In management control systems accounting information provides a window through which the real activities of the organization may be monitored.
An organization's strategy must be appropriate for its resources, circumstances, and objectives. The process involves matching the company's strategic advantages to the business environment the organization faces. One objective of an overall corporate strategy is to put the organization into a position to carry out its mission effectively and efficiently. A good corporate strategy should integrate an organization's goals, policies, and action sequences (tactics) into a cohesive whole, and must be based on business realities.
The performance measurement systems, on the other hand, should encourage managers to act in the best interest of the organization and its subunits and to support organizational missions and competitive strategies.
In the end we can say that management control is a core business function and exists as a separate, well-established discipline within the management field. The extension of this discipline to business ethics and its partial merging with legal risk management has been one of the more important developments in international business of the last two decades.

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