

THE ROLE OF THE MANAGEMENT CONTROL IN STRATEGIC DECISIONS

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ABSTRACT: The purpose of this paper is to understand the way in which the management control had an impact in developing and implementing new strategies and therefore, to better understand the relationship between the management control and strategy. The study between strategy and management control remains the main concern for scientists in management control.

Keywords: management control, decisions, strategy.

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Introduction

The economic entities can run their activity in an economic environment which can be stable or variable. In the case of an unstable economic environment the changes are rare or at a small scale, or they can be easily predicted. If the economic environment is variable or inconstant then it appears frequent modifications, of variable scales with very large influences over the activity of an entity. As a result, the economic activities adopt a certain strategy, taking into consideration all the environment components, their intensity and interaction between the factors that compose environment and the current and future activity of an entity.

Due to the environment characteristics, different levels of incertitude had increased considerably regarding the management activity of an entity, and therefore, as the incertitude increases, the necessity and the role of the management control are highlighted. Since the incertitude appears, the risk is also emphasized, the two having common origins, and in the tendency to overcome the difficulties of the management control, it will be necessary to

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take into consideration the economic uncertainty which is more emphasized, but also a certain social uncertainty, which is taking place more often through the dynamic of the social needs, which are embodied under the shape of products and services request.

Taking into account the doctrinaire evolution, the concept of the management control was substantiated on the base of the first classic theories, which led to the contemporary managerial visions and they underlined the step made by the concept of “control-verification” to the idea of “control-leaders”, the idea that characterizes the management control even now.

The research methodology

Regarding the research methodology, next we will do a short presentation of this one, so the reader can have the possibility of understanding the paper content and of the way in which it is designed.

The research can be defined as a search through a methodical process addressed to improving such as own knowledge and also others knowledge by discovering some facts and nontrivial visions. The necessary condition for reaching the success in research is the adding of new knowledge in the researched domain.

The scientific research can be defined as a knowledge enlargement process made through a careful and objective examination, investigation and experimentation, having as target the discovery and interpretation of some new information.

The accomplished research targeted the presentation of a synthesis from the specialty literature present in the domain.

Our approach was based on a descriptive research considering that in this way we will reach the purpose objective. In the formal mode, any research is composed by four parts (stages): consulting the specialty literature; developing theories; testing theories; notions reflecting and integrating. Taking into consideration the theme approached by us, the research targeted a problematic approach at the theoretical level.

In our study we appealed to research methods such as documentation, comparison, analysis and synthesis to accomplish the proposed objects and reached, we hope, in most part. Being a theoretical study, the synthesis was mostly used. We consult the specialty literature, etc., articles, publications. In the last part of our paper we searched to present a series of conclusions as a result of the performed study.

Control management – evolution

Control management was developed within large industrial companies from North America in early '30. In the large industrial companies, board of directors wanted to control from distance with the help of specific indicators and to implement the classic procedures of cost management through standards and budgetary control.

The management control techniques are developed in France starting with '50 when different study missions were undertaken in USA allowing the European responsible to initiate themselves in management.

Reviewing the specialty literature, we will first define what management control and strategy means, as then to analyze the relationship between management control and strategy.

Control means permanent and periodic analysis of an activity, of a situation etc., to observe its development and for taking improved measurements. Shortly the control means to monitor, to master, to know. The control notions comes from the Latin expression “contra-rolus”, which means verifying in the original form after the duplicate which is given in this purpose to other person (Briciu S., 2006).

According to the Romanian Explanatory Dictionary, the control is “a permanent or periodical analysis of an entity, of a situation etc., to track its progress and to take improvement measures” (Romanian Explanatory Dictionary, 1996) and the management and control are closely tight together, practically being impossible to manage without controlling.

The control may also be defined as being “the power which leads financial and operational politics of a company to obtain benefits from its activity.”(Briciu Sorin, 2006).

The management control essentially contributes to support the entity, to adapt and to pass from one activity to another or from one product to another, in response to the signals of market change. Therefore, the control substitute itself to a truly code of conduct. (Aslău, 2001)

The management control serves as a bound between strategic control and execution control, being the passing guarantor from long term to short term and vice-versa. We appreciate the evolution control of an entity from a control-penalty formula, through the cost and budget control, to the management control, the current state seen as a process through which the manager influences to the other members of the organization for realizing the strategies of the company. (Briciu S., 2010).

“The management control is the process in which the leaders assure that the resources are obtained and utilize with efficiency (in report with the

objectives and reported efficiency at the used means) with the scope of reaching the organization objectives “ (Anthony R.N., 2005).

The management control is defined by the Accounting French General Plan in this way: “the management control represents a unit of taken dispositions to periodically give to the board of directors and to the other people in charge, encrypted data which has to characterize the company flow, comparing those with past or future dates, and if is necessary, to incite the leaders to take necessary corrective measures. “

The promoter of this discipline Anthony R.N. defined the management control as being “the process through which the managers own the assurance that the resources are obtained and utilized in an efficient way for reaching organization objectives.“

The fiduciary dictionary of organization and management, defines management control as being “the process through which the persons in charge assure themselves that the necessary resources are obtained and utilized with a maximum efficiency and efficacy to reach objectives that the organization fixes.“

Anthony R.N. (1988) offers another vision of the management control: “the process through which managers influence other members of the organization to implement the organization strategies.”

In a traditional way, management control literature is focused on defining the strategy as a plan. This plan is decided by the board of directors and it is applied in the entire organization, and this appliance is controlled by the management of control tools (Anthony 1965). Considering the strategy as a position, many scientists studied “the matching“between two different generic strategies and management control tools.

Ahrens and Chapman (2007) define the control as a practice, as it follows: “the management control, as practice, is understood as a package of practices and material arrangements. Situated in offices and workshops, using machine and computers configurations, the members of one organization negotiates strategies, budgets and targets, discuss about the way of implementing those, alert the others regarding the unknown, give orders, follow orders, argues it appears, or elude instructions, generates reports and make comparisons, give and receive advices, find excuses, take corrective measures, etc.“

The Management control and the entity strategy

Modern board of directors of any entity presumes the assessment of one strategy that allows obtaining, on long term, the maximizing of the benefits in an economic-social environment. (Briciu S. 2010).

The strategy can be defined as a set of organized actions which take into account to fulfill the objectives, with regard to the environment. It must assure the organization perennially respecting a performance level which satisfies different partners (leaders, shareholders, staff).

The management control must help the managers into a strategic perspective, namely taking some decisions such as: the launch of new products, the accession on new markets, the selection of distribution channels, setting the price politics, etc. The strategic decisions are of two types:

The First category is all decisions regarding the diversity or integration on vertical of the activities, respectively defining the activity domain. In Anglo-Saxon literature, there are designated "corporate strategy" or enterprise strategy. In this case the manager of an entity of a control system put at his services information regarding the profitability of invested capital in diversification or integration operations.

The second category includes the decisions at the level of each activity domain "business strategy" or strategy on domain. This type of decisions determine in time the desired finalities by entity and tools on which it is based for accomplishment. Taking into account the strategy based on costs, the strategy of diversification through brand or quality or the strategy of focalization (choosing a domain very well establish).

In the case where a strategy based on costs is chosen, it will be considered a strict dominion of the costs in all stages of the production process. In this situation we will have a management control based on a careful monitoring of the consumption deviations and productivity in sections. The diversification strategy (in the case of luxury products) gives a higher importance to quality indicators than costs.

In the paper *Generic Strategies: Towards a Comprehensive Framework*, Henry Mintzberg has grouped the strategies in two clusters. The First cluster split the strategies in static and dynamic. Within one static strategy the entity tends to conserve the position on the market and within one dynamic strategy is promoted the major changes at the entity level. The second cluster of strategies is concentrated on developing businesses, the strategies are delimited like this:

- a) Penetration strategies – starting with the existent markets and want the seizure of new markets.
- b) Developing a market strategy – which promotes the developing of one market through raising the size of the existing products on that particular market.
- c) Developing products strategies – increase the quantity of products by raising the capabilities of production.
- d) Diversification strategies – have as objective increasing the product range in the same activity domain.

The structure of one strategy considers:

1. The Strategic horizon - the period is between 5 and 10 years. In this time are set the scopes and the objectives on long term, respectively are elaborated the strategy plans.
2. The Budgetary horizon – the period is between 1 and 3 years in which are defined the strategic objectives. There are elaborated the operational plans which are divided on years with the help of the budget.
3. The operational horizon – the action period is up to one year, in which the plans are watched, analyzed and implemented.

The control is closely related to the decision level

Table no. 1

The relation control-decisions

Decisions	Control	Steps	Responsible(actors)
-> strategic	-> strategic	->conclusion	->the managers of general management team
->tactical	-> of management	->pilotage	->the specialized managers (operational planning)
-> of execution	-> of execution	-> of execution	-> the execution staff

Source :Tabara N. (coordinator),Management control – conceptual delimitations, methods, applications, Publisher TipoMoldova,Iasi, 2009

The art of leading not only involves strategic planning (predictions)and taking decisions, but also to control all these actions. The management control includes the processes which ensure the managers that the strategic options and current actions have been are and will be coherent, especially because of theoperational control.

Conclusions

The entities, regardless the size and profile it must prove the viability permanent, the ability to adapt and economic-financial performance. The information system of the management control captures and treats information in order to manage more efficient the performance of an entity.

The way of managing and structuring the entity activities requires multiples changes. Within the current economic environment, multiples phenomena such as the stagnation of the economic activity, increasing competition, the inflation contributed to increase the entity vulnerability. Therefore, the management control must intervene in the activity of the entities and in taking strategic decisions such that the entities to fulfill the proposed objectives.

The classic tools of management control are extremely numerous, starting from costs, standards, budgets and reports, transferring prices, to centers of responsibilities. Some of those tools have a predominant informative function, as is the costs case, while others are fulfilling the adjustment function of the behaviors. These can generate at their turn planning and strategies changes, giving information about possible effects of strategies and perspective plans.

Due to the continuous changes that take place in the economic environment, the entities are forced to change permanently their strategies, resulting in the necessity of a manifestation of a learning process, which will be the premise of a durable performance within the entities.

In our approach we notice the fact that the success of an economic entity is insured in the moment in which has on the market an appreciated product. In this way the management control has a very important contribution.

We notice that the management control importance in realizing the objectives of an entity, fixed during strategy formulation. It must take into account the fact that the permanent evolution of the economical context can influence on the entities managers in formulating objectives.

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