

MANAGEMENT CONTROL – THE INSTRUMENT OF MEASURING THE ENTITY’S PERFORMANCES

Abstract: management control presented as a combination of qualitative and quantitative tools serves as support for managerial decisions. The most important source of information within the management control system is the accounting. The management method that adapts well to the management accounting is the method of standard cost. Standard costs are presented as targets, while the deviations recorded between the effective costs and standard costs provides an indicator of performance evaluation of the entity and an important foundation for effective managerial decisions in the future.

Keywords: management accounting, standard-cost method, management control, budget, performance.

Currently, the performance becomes a term of reference for the entity managers. A performant entity better capitalizes the opportunities of the external environment, passes easier over crisis periods, quantitative and qualitative satisfies a certain segment of social need and gains a competitive advantage among competitors. The performance is associated firstly with the advantage of what has been achieved in an earlier period, secondly, with the obtained result of competitors and thirdly, with the result of achieved objectives.

To have performance, the romanian economist Jianu I. claims „the entity should be based on five fundamental concepts: conformity, prevention, excellence, measurement and responsibility”.

According to the scientist Noyé, „performance is not a simple ascertainment of results but rather is the result of a comparison between results and objectives”.

Obtaining performance at the entity requires directly or indirectly to evaluate the concepts of competitiveness, competitive advantage, efficiency and effectiveness. Therefore, management control has become indispensable for improving business performance and for maintaining competitive advantage, because it supports the management in strategic and operational decision making.

At present, it’s hard to believe that a manager can directly and permanently be involved in all sectors of its business. Our society is in constant change so that managers and employees do not have time to check everything they do. Accordingly, the system of management control gets a role increasingly important, and the manager-analyst (controller) becomes an indispensable employee at any entity that is respected.

Management control is presented through a combination of qualitative and quantitative tools, regarding the coordination of information and supporting decision processes, namely:

- a coordination tool of the entity staff;
- is intended to strengthen the coherence and consistency within the entity;
- related to cross-organization entity activity;
- a continuous process of learning through accumulation and exchange of experience.

As a process and way of thinking, management control, is constituted at the intersection of leadership tasks between management and manager-analysts. At small and medium-sized entities, the controller function is taken by the entity management or accounting, while at large entities, it is necessary to appoint a manager-analyst responsible for the tasks and objectives of management control. Thus, the manager-analyst



transforms from a simple service provider in a management consultant, with the following tasks:

- the collection, interpretation and modeling of required data for achieving the performance analysis;
- verification and allocation of costs and revenues on responsibility centers;
- updating the required information in accordance with the requirements of the entity;
- risk analysis;
- participation at the elaboration and monitoring the compliance with the production budgets.

Each entity follows a strategy of achievement through the appropriate structuring of exploitation processes. Management control must form a whole, in terms of tasks, organization and available instruments. At the entity, the tasks of the management control consist in sorting the components, verifying their utility, completing and organizing them into a system. The scientist Horvath says „the components of leadership system that guide the activity of the manager-analyst are: the system of planning, control and information”.

The most important source of information within the management control system is the accounting. The information provided by the financial and management accounting, regarding the correlation, tracking and determination of production costs and financial results, are important for the manager-analyst, because identifying the factors that influence the costs and results contributes to the orientation and selection of measures that must be taken in order to increase the efficiency of entity. To structure the information system, is required to recourse to the necessary information by processing it using accounting and communicate it on the basis of reports.

The success of management control depends on the ability to reflect as adequate as possible the economic resources and their representation in financial flows, in order to obtain a dynamic and accurate image of the differences (deviations) between the planned and actually achieved level. For continuous improvement of processes and functions of the entity, the management control should provide an early warning system on problems that may arise within the entity and help to increase the performance, thus ensuring the competitiveness and sustainable presence on the market.

The efficiency of management control is one of the main problems of managers. Solving this problem is to transform the classic accounting in management accounting. The romanian scientist Jianu I. believes that „management accounting influences the behavior of people nature and the presentation of information that is transmitted, guides the strategic decisions, influences the structure of the entity and the system of performance evaluation”. And the french economist Gervais says that „a coherent system of performance measurement involves structuring the entity in responsibility centers that hold activity regarding the resources (material, human, financial) and a negotiating capacity on the set objectives”.

Management accounting must be able to supervise the successful implementation of decisions, from which result the actual values that are compared with the standard values.

After identifying the registered deviations, is highlighted the causes of their occurrence and is proposed measures to reduce or even to eliminate existing differences.

The management method that adapts well to the accounting that is based on management is the method of standard cost, which is a technique of budgetary control. Standard costs are the predetermined costs based on the analysis of future prices that serve as targets in determining the product costs. After setting goals, standard costs are presented as tools for planning and budgeting, while the deviations between them and effective costs, provides an indicator of evaluation the performance. Analysis of registered deviations allows separation of the efficient and effective results at the entity, so that managers can focus their efforts on areas of activity that require rationalization.

Performance may be assessed by comparing actual results with budgeted data and/or with standard costs determined based on flexible budget. The first stage of performance evaluation is to determine the deviations from costs, which helps to identify effective and ineffective areas of activity. The key to effective management control does not consist only in identifying the value of deviations, but in determining the cause of their appearance. By being determined the causes, managers can take measures to correct the occurred problems.

Effective evaluation of managers' performance depends on the human factor and accounting politics set by the entity. Introducing the deviations from standard costs in performance reports, bring a degree of accuracy to assessment process. The management entity should establish appropriate politics that allows direct participation of managers and employees to initiation of assessment process of performance by elaboration operational plans, assigning officers, reporting the information, and evaluation of responsibility centers and determine the causes of deviations appearance and taking necessary measures to their removal.

Even though theoretically it seems easy, the method of standard-cost is complex to implementation in practice because it requires a detailed analysis of production activity. Even the simplest product requires a lot of standards for all used materials and all stages of production.

In an efficient management control system, standard costs analysis has an important task that provides some information to managers on costs of facilitating decision-making process.

Taking into consideration that information on costs calculation is an important basis for managerial and strategic decisions about pricing; managers need information on costs for managerial strategy.

In conclusion we could mention/state that entities are obliged to check the competitiveness of products which become an important task and in such conditions a modern entity cannot develop without an efficient management control system.

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