

BENEFITS AND LIMITS OF THE MANAGEMENT CONTROL SYSTEM IN ROMANIA

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Abstract: Any public or private entity wants to build its management system that allows the implementation of its own strategies and policies, thus ensuring the fulfilment of its mission and the vision through the rational use of (often limited) resources and at the same time the satisfaction of stakeholders' requirements. Business development and diversification, business performance in a turbulent, interconnected and globalized economic system, diversification of management techniques have generated the interest in control. Thus, the management control activity becomes an important step that generates multiple benefits to all organizations to the extent to which they are prepared to develop systems and procedures according to legal procedures and standards, but also adaptable to the environment. Control is the activity that provides a company management with real and preventive dynamic information which gives value and quality to the decisions made. The management control activity provides managers with the opportunity to identify real issues as it captures the substance of phenomena and the ability to define a scientific and efficient management system. To the extent that control is not limited just to finding the negative elements but also to identifying and predicting the way an activity is carried out, it can determine the maximization of advantages and the prevention of phenomena that require corrective decisions.

Key words: public entity, trade company, management system, management, management control

JEL Classification: L29, M48, M10.

1. Methodological Approaches Regarding a Management Control System

An analysis of specialist literature shows that the first opinions regarding a management control system are made by Anthony, who presented a differentiated approach to the concepts of management control, strategic planning and operational control at Harvard Business School in 1965.

Since 1965 until now, the research has been trying to highlight issues concerning the content of the management control system, the impact upon an organization's strategy or the relationship between the management control system and competitiveness (Kim, 1997). There is also the belief that the management control system aims at settling conflicts between companies' desire for creativity and innovation and their need to achieve a predictable objective (Henri, 2006).

At present, when organizations are forced to cope with a turbulent economic, social and political environment, when globalization is an undeniable fact and the free movement of capital, goods and people brings both benefits and tensions, the management process is regarded as a mechanism that ensures the rapid transformation of an organization and the management of internal conflicts.

Management seen through its functions (Puiu, 2018) is a system that contains inseparable parts whose combination depends on a company's object of activity, organization, competence and training of the managers, the level of culture and civilization of both the internal and external environment.

Achieving the strategic objectives and the mission of an organization makes it necessary to carry out specific planning, organizing, motivating and controlling activities (Cole, 2004), thus control in a broader sense having a management function and not an assessment function (Minculete and Chisega- Negrila, 2014).

Control as a function of management is an activity that allows the monitoring and assessment of all decisions made and the development of corrective mechanisms to the extent that the direction or the results are not the ones expected (DEX, 1998).

Gâf - Deac (2014, p.67) defines control as a method by which companies can define their objectives, assess their performance, and also modify and determine their behaviour, composition and structure.

Morariu and Suciu (2004, p.19) show that, according to the International Standards on Auditing issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), internal control is defined as the "process designed, implemented and maintained by the people in charge of governance, management and other categories of personnel in order to provide reasonable assurance regarding the accomplishment of an entity's objectives regarding the *credibility of financial reporting, the efficiency and effectiveness of operations, and compliance with applicable laws and regulations. The term "controls" refers to any issues of one or several components of internal control.*"

Ordinance 119 regarding the internal/management control and the preventive financial control defines the internal control regarded as a management control as: all the forms of control exercised in a public entity, including the internal audit, laid down by the management in accordance with its objectives and with legal regulations, in order to ensure the administration of public funds economically, efficiently and effectively; it also includes organizational structures, methods and procedures. ISA Standard 315 defines internal control as a process designed and performed by those in charge of governance, management and by other employees in order to provide reasonable assurance about the achievement of objectives regarding the credibility of financial reporting, the efficiency of performance and the compliance with applicable law.

Cosneanu et al. (2013) believes that the entities applying management control systems are exponents of governance based on added value, generating profit, maximizing value through systems and procedures that provide the management the possibility of permanent assessment and monitoring of performance carried out.

Control is the activity that provides the management with real and preventive dynamic information that gives value and quality to the decisions made. Management control allows penetration in the substance of the phenomena equally contributing in the definition of a scientific and efficient management system. Insofar as control is not only limited to finding the negative elements but also to identifying and predicting the way performance is carried out, it can determine the maximization of profit and the prevention of the phenomena that require corrective decisions.

Munteanu (2003, p.21) thinks that controlling ensures the conditions for achieving increased profit under competition conditions, and also a system of patrimony management and performance organization and management adapted to the new realities and perfected.

Controlling must therefore be regarded as a necessity, as a means by which one will obtain the desired results and it should not be seen as a goal in itself. Controlling must be a permanent action, not only when things are not going well. Implementing a management control process can give the manager a clearer picture of how resources are used to achieve the proposed goals.

Starting from the objectives of the management control, namely to measure performance and to develop corrective steps where appropriate, one can appreciate such an activity as a feedback at the level of the whole organization that will have to define: performance standards, performance measurement manner and corrective actions. Performance standards must be properly expressed and easily verifiable. It can be appreciated that management control can be associated with the 3 E's: economy, effectiveness and efficiency (Țugui et al., 2015).

2. Need for a Management Control System. Benefits and Limits

Business development and diversification, operating in a turbulent, interconnected and globalized economic system, diversifying the business management techniques have generated the interest in control. The increased interest in creating and implementing a coherent and efficient management control system is generated by national and international legislation (Popescu, 2017).

The implementation of a management control system is the key to applying the principles of total quality management. At present, it is believed that total quality management is an important element that can influence the success of an organization. In this respect, Russu (and collaborators) states: "In the conditions of modern economic and social life, managers' professionalization becomes a sine qua non condition, and it is only on this basis that the management approaches can significantly gain in terms of rationality, realism and response time, and provide the most suitable answers to the multiple challenges organizations are facing." The need to implement a management control system is generated by its characteristics, namely: it is a basic instrument of the management system; it allows to obtain a true and fair view of the way organizational objectives are achieved; it offers a correct basis for substantiating the corrective steps adopted by the management; is an element that offers the answer to risk situations; it generates costs from the point of view of resources used which implies the definition of a correct cost-benefit relation.

The accomplishment and implementation of an efficient management control system is conditioned by the qualities the system has (Ionescu, Cazan and Negruşa, 2001, p.383):

a) accuracy - for the information provided by a control system to have the desired purpose, it is necessary to design an information system that allows the processing of an impressive amount of information and provides quality feedback. Building an information system can generate specific risks such as the access of data by unauthorized people, the incorrect recording of some operations, the risk that certain employees might have access to information beyond what is absolutely necessary in fulfilling their tasks;

b) opportunity - a management control system must be built so as to provide information on time;

c) economy - building management control systems can generate substantial costs and therefore the benefits they generate must justify the costs;

d) flexibility - true control must be built in such a way as to allow adaptation to the new realities;

e) understanding - a control issue is the degree of understanding since a control activity that generates a low level of understanding has no value. In this respect, management control systems that are difficult to understand generate the frustration of employees and the desire to avoid them;

f) criteria - it is necessary that control standards be correctly substantiated, since if they are badly founded they can generate employees' lack of motivation because they can be regarded as inappropriate. That is why the standards must be defined in such a way as to motivate employees to perform their tasks as well as possible and correctly.

The limits of a management control system are generated by the way procedures are performed, namely either they are formally accomplished just to justify their existence, or they are performed in a very large number which generates insufficient knowledge. Also, another limit of the management control system considers the elaboration of procedures. To the extent that they have been taken from other companies without taking into account the specificity of activities, the internal realities, the way of organizing performance, the effects will be greatly diminished.

The limits defined by a management control system are generated by the fact that human judgment can sometimes be defective and can generate simple or complex human errors. In addition, controls can be circumvented by associating two or more people for this purpose or by inappropriately ignoring internal control by the management. The possibility of circumventing controls by the owner-manager largely depends on the control environment and especially on the owner-manager's attitude towards the importance of the internal control.

Other limits of a management control system are also generated by the distribution of tasks, namely in small entities they rather speak of multiple tasks and less of their rational distribution. It is recommended that, even for small entities, a more precise delimitation of tasks should be achieved.

Equally, the different economic-social facts have allowed the creation of management control structures adapted to specific realities, which makes it impossible to reproduce and replicate them in several countries (Bostan and Grosu, 2010).

The benefits of building a management control system exist and are not negligible at all. They consider the security and integrity of financial and operational information; the efficiency and effectiveness of operations; ensuring compliance with legal regulations in force; promoting continuous improvement of internal control; creating value through the savings it generates, the opportunities it creates and the losses avoided as a result of its performance.

It should not be neglected that a management control system can provide a true and fair view to all stakeholders involved in the life of an organization and can even be regarded as a solution to decrease the risk of bankruptcy. Reducing the limits and multiplying the benefits can be ensured through a high level of education. The improvement of professional knowledge is thus an essential requirement of carrying out an activity, with superlative attributes and efficient effects in the life of a company. Via its conclusions and recommendations, the control department firstly substantiates and determines the future decisions regarding the professionalization of the management, directly acting to amplify the company's ability to manage its specific issues. The report of the control department will generate a series of consistent opinions regarding a possible change in the eradication of dilettantism, arbitrariness and waste of resources.

As a conclusion, it is believed that management control takes into account all the actions developed by a company aiming to find the most suitable solutions for managing the risks pursued by each element and by the accounting reporting system (Prozan, 2015).

3. National Regulations Regarding Management Control System in Public Institutions

The importance of applying an adequate management control system has meant that the Romanian legislation has defined a series of standards targeting public entities. It can be appreciated that their application can also be done at the level of trade companies as their benefits are undeniable. That is why it is necessary to know them. The purpose of the standards is to create a uniform and coherent internal management control model which allows comparisons between entities of the same type or within the same entity at different times and to make it possible to highlight the results of an entity and its evolution. In this respect, the General Secretariat of the Government has issued a regulation defining the standards of the management control system via Order 600/2018 whose components are presented briefly:

a) Control Environment

- Standard 1 - Ethics and integrity - mainly aims at implementing a code of conduct, certain policies to ensure compliance with ethics both within the organization and outside it;
- Standard 2 - Duties, functions, tasks - which aims at ensuring the presence of organization and operation regulations, internal regulations, job descriptions in an entity;
- Standard 3 - Competence, performance - considers the definition of adequate human resources policies, namely carrying out recruitment, selection and employment policies to ensure human resources suitable to the job requirements;
- Standard 4 - Organizational structure - achievement of an organizational structure in relation to the strategic mission and objectives of an entity.

b) Performance and Risk Management

- Standard 5 - Objectives – involves the correct definition of an organization's objectives in relation to the mission and vision and complying with the specific legislation but also communicating them to all company employees;
- Standard 6 - Planning - which aims at applying the planning function as often as possible by defining appropriate policies that include objectives to be achieved, deadlines, maximum resources to be allocated, people in charge, risks that may affect fulfilment;
- Standard 7 - Performance monitoring - aims at defining the system of monitoring the activity performed by employees by correctly setting qualitative or quantitative performance indicators;
- Standard 8 - Risk management - aims at organizing and implementing a risk management system to quantify the influence of risk elements on an organization's performance.

c) Control Activities

- Standard 9 - Procedures - preparation of procedures in a unitary way and informing stakeholders about the former's existence and content;
- Standard 10 - Supervision - creating and implementing certain monitoring and control tools specific to the activities carried out that will generate the achievement of objectives in terms of efficiency and effectiveness;
- Standard 11 - Business continuity - by which the entity management can identify the main risks that may affect performance, and also develop and apply steps that allow its continuation.

d) Notification and Communication

- Standard 12 - Notification and communication - by which an internal and external communication system is created within the entity by defining the type, content, quality, frequency and recipients of information;
- Standard 13 - Document management - which defines how to create, process, manage and archive internal documents and those coming from the external environment;
- Standard 14 - Accounting and financial reporting - defining an internal control system namely the management is assured that the information used to reflect a financial - accounting status is correct, complete and provided on time.

e) Assessment and Audit

- Standard 15 – Assessing an internal management control system - the standard envisages the creation of an internal control system by the entity manager by

defining the responsibilities, policies, and specific programmes, of the responsibilities of people carrying out such activities;

- Standard 16 - Internal audit - aims at creating an internal audit department within an entity in order to improve management performance.

The report on internal management control for 2017 prepared in the General Secretariat of the Government shows that of the 55 main credit authorizing officers, 81.1% have implemented internal management control standards, of whom only 27.3% (15) have fully implemented them. The analysis has also revealed that the highest level of implementation has been achieved for S1 - Ethics and integrity and S15 Assessing an internal management control system (96.4%), whereas the lowest level of implementation has been reported for S9 procedures (52.7%).

4. Conclusions

The paper has aimed at carrying out an objective analysis of the benefits and limits offered by the existence of a management control system given some legal regulations regarding public institutions.

The project has been made starting from the belief that controlling should be regarded as an objective and subjective necessity, as a means of improving executive performance, including its management process. It was also based on the premise that the implementation of a management control system can generate positive effects not only for employees or stakeholders, but also for investors as it allows to increase confidence in the activities carried out, to reduce fraudulent actions or instability. Management control represents a complex activity that generates multiple benefits for all organizations, to the extent to which they are prepared to develop systems and procedures adapted to specific realities and at the same time being adaptable.

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