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# MANAGEMENT CONTROL AND FINANCIAL MANAGEMENT WITHIN ECONOMIC ORGANIZATIONS

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**Abstract:** *This paper deals with management control as an essential factor in monitoring the functioning of the economic management of economic organizations. Management control is the set of procedures and tools that allow an organization to set goals, guide management decisions and behaviors to achieve goals and ensure that the necessary resources are available and used effectively and efficiently in carrying out activities associated with the goals set. It intervenes in all situations where the working environment is indefinite or unclear. Through the management control it is tracked whether the stages of the managerial process regarding the management of the financial resources and the patrimonial management are properly completed. The management of the economic organizations through the implementation of the management control ensures that it has sufficient data sources and information that guarantees that the managerial decisions made within the different functional structures of the organization are coherent and that, in the short term, they meet the objectives.*

**Keywords:** *internal audit, management control, costs, management accounting, internal control, managerial performance, budget system, dashboard*
**JEL Classification:** *M40, M41*

**Management control in economic organizations and its role**

Management control is the lever for tracking financial management and can be viewed as an organization's pilot system, which intervenes at all hierarchical levels and integrates knowledge from multiple disciplines, such as accounting, financial management, marketing, human resources management, strategy. .

In the economic organizations the management control is exercised to ensure the achievement of the objectives, as well as to help measure the financial performances, determining and analyzing the causes of the occurrence of deviations between the results obtained and the objectives set. When the objectives are not reached the management control intervenes in order to limit the dangers and establish the responsibilities.

To be effective, the management control must be oriented towards aspects that concern the clarity of the objectives, the motivation of the staff, the quality of the communication and the risk management. In achieving its goals, the management control operates with the notions of: cost (conception, motivation, distribution, and outsourcing); quality (indicators, improvement); time (real, discounts); organization (employees, structure).

The place that the management control occupies within the organization depends on its size, the way of stimulating the staff, the degree of decentralization, the working environment and the control environment, as well as the place and importance of the financial function within the organization. The quality of the management control can be appreciated when this activity ensures the performance of the organization.

Management control monitors the effectiveness and efficiency of the resources used in achieving the objectives and examines the coherence of the decisions taken within the different organizational structures. Management control is a communication and information system, which exists within each management function and which, regardless of the nature of the activities, involves defining objectives, measuring results, analyzing deviations and making corrections. Through its objectives, management control ensures the link between the organization's strategy and the operational level. A well-designed management control should cover the entire management process (Cucui, Horga, and Radu, 2003).

The management of the economic organizations uses the management control as an effect of reaction to what the competitive economic-social environment offers (delayed, intermittent, incomplete or imperfect information).

Some of the specialists in the field consider management accounting to be included in the management control, because management accounting integrates both analytical accounting elements, such as cost calculation and control, as well as budget management elements, such as budgeting. And monitoring their execution, which correspond to the field of action of the management control. This support is justified if one considers the fact that, in practice, management accounting aims to establish the relationship between expenses and needs, which establishes the belief that the activity of management accounting is part of management control or, more precisely, an instrument of control management (Iacob, Croitoru, and Calotă, 2011).

However, the present reality requires a redefinition of the relationship between financial accounting and management control, so that accounting information becomes a reliable tool for management control, and management control is designed as a control system less dependent on accounting information.

## The need for management control in economic organizations

The management control appeared in response to the needs of the economic organization regarding the economic efficiency and the need to ensure an efficient, increasingly complex management, if we refer to the tendencies of decentralization of responsibilities.

The premises that lead to the need for management control are generally determined by the evolution of the management of the economic organizations and the environment in which they operate. The development of the management control takes place mainly in times of difficulties and in emergency situations, imposed by the economic, technological and political changes, which determine the need to adapt the organization to the external environment.

The management control acts at the level of the organization, on two main directions of responsibility:

a) management control is used by those decision makers who incorporate their judgments and actions in the management control system, adopt action plans to achieve the objectives and measure their performance based on the established indicators;

b) the management control is used by the management within the financial direction, responsible for the economic and financial balances of the organization. It collects, summarizes and presents useful information for exercising management control. The calculations and analyzes performed are subject to the judgments of the operational management.

Management control can be defined as a control system of the economic organization, which intervenes at all levels of decision making and integrates knowledge from different disciplines. A management control system in order to be effective and to become operational must incorporate several elements, respectively:

a) knowing the situation of the organization at the moment of starting the elaboration of the action plan;
b) defining the objectives and detailed programming of the activities;
c) verification of the activities by comparing them with the recorded results;
d) identification of deviations from the normal evolution of the activities and objectives established;
e) establishing and taking measures to eliminate errors and correct deviations.

The role of the management control is to help the management to better coordinate its actions, in ensuring the functioning of all the functional structures of the organization, taking into account the internal and external circumstances. It must guarantee that the resources are well used and in accordance with the general interests of the organization.

The objectives that the management control must meet refer to:

a) drawing up development strategies taking into account the financial constraints of the organization;
b) implementation of strategic directions from a financial point of view and based on indicators;
c) measuring the performances by using those indicators and criteria that make possible a correct evaluation of the results;
d) imposing the observance of certain rules and procedures for the good management of the patrimony;
e) determining gaps and taking corrective measures following the control of pilotage acts;
f) assessing and informing about risks and allocating resources according to them;
g) defining and establishing systems for delegating responsibility and creating conditions for motivating the human factor to ensure the achievement of the established performances.

Management control has to be the instrument of attention and cohesion of the management, providing the necessary elements for management decisions.

## Tools used by management control

The management control approach is useful from the point of view of the instruments used, namely: management accounting; the budget system; management dashboards.

Management accounting mainly ensures the recording of operations regarding the collection and distribution of expenses by destinations, respectively by activities, sections, manufacturing phases, cost or profit center, as the case may be, as well as the calculation of the purchase, production, processing cost. Of the goods entered, the works executed, the services provided, the production in progress, the fixed assets in progress.

The analysis of the performance of the organization from the point of view of the management control is conditioned by the knowledge of the objectives of the management accounting, which must ensure the integration of the accounting information in the managerial activity.

Managerial accounting is an important tool in the planning and forecasting of the activity, in the preparation of the production expenses budget, as part of the unit's revenue and expenditure budget. The knowledge of the costs gives the possibility to take measures regarding the modification of the technological processes and in order to reduce the production costs. This type of accounting has become the most important source of information on economic activity, both at the entity level and at the national economy level (Caraiani and Dumitrana, 2010).

Designed as an internal decision-making tool, management accounting is the main provider of information needed to manage and perform management control. In order to fulfill the responsibility of ensuring the maintenance of the organization on the market, the management control must have a complex, operative and accurate information of the operations and the financial flows, as well as an adequate degree of knowledge of the costs.

The cost is appreciated as a basic element in the competitiveness of the production and the stability of the organization, it represents an economic lever for the improvement of the economic management, as well as a criterion for evaluating the economic activity and the material stimulation.

The budgetary system, is a tool of management control, helps in the process of controlling the managerial decisions and in setting the objectives regarding the improvement of the organizational performance, intervenes to regulate the possible deviations.

The budgetary system, consisting of several budgets classified by several criteria and a process of budgetary control, is a specific instrument for management control, communication and coordination, but also a tool that allows the identification of negative effects. It involves conducting activities characterized by complexity and diversity and grouped as follows:

a) the forecast, which implies the elaboration of the budgetary documents foreseen;
b) budgeting, which implies the recording of figures resulting from forecasts in the budget;
c) the budgetary control, whose main objective is to compare the forecasts with the achievements, allows to compare the real situation with the situation provided in the budget.

The budgetary control is carried out by confronting each chapter of the budget with the level of actual achievements.

The dashboard, as a tool of management control, ensures the pursuit of objectives at all hierarchical levels and categories of functions of the organization. It provides information to the management of the organization, allows management decisions and implementation of business plans and allows corrective measures to be taken.

The dashboard represents a set of data and indicators that allow management to know the status and evolution of the systems they manage and helps identify trends from one period to another. It is presented in the form of a document, or as the case may be, a graph that includes indicators of the nature of accounting and financial data (revenues, expenses, and liabilities), physical data (output expressed in physical units), indicators (profitability) and qualitative information (opinions of economic operators on the evolution of the market).

Management control allows the management to ensure that the managerial decisions made within the different functional structures of the organization are coherent and if in the short term it competes in meeting the objectives.

## Relationship of management control with other forms of control

Management control cannot and should not be confused with other forms of control, although it is very difficult to clarify the scope and scope of this type of control in relation to internal control and internal audit.

Internal control is the set of policies and procedures designed and implemented by management in order to provide reasonable assurance regarding the achievement of objectives in an efficient and effective manner; compliance with rules and policies, protection of goods and information, fraud prevention and detection, quality of accounting documents and financial information.

By designing and implementing in practice the internal control system, it aims to decentralize the control activities to the managers of the functional structures of the organization. This implies that each leader, at his level, is responsible for establishing and implementing the internal controls necessary and adequate for the functioning and the performance of the activities he coordinates. Through this organization, management autonomy is conferred for the achievement of the objectives, namely transparency and responsibility in collecting the revenues and efficiency and effectiveness in the use of the managed funds (Vasile and Croitoru, 2011).

Internal control is one of the basic attributes of management and requires a complete check if the activities are carried out in accordance with the established programs, identify the deviations and have the corrective measures to remove them. In other words, it follows the organization and functioning of the organizational system of the organization, the decision making mode, respectively if the objectives set are achieved.

In conclusion, it can be appreciated that, through the internal control system, the operational procedures based on execution rules are examined in principle, while the management control represents the process by which the management ensures that the resources are obtained and used effectively (in relation to objectives) and efficiently (in relation to the means employed).

Internal audit organized as an internal structure, distinct, subordinate to the manager, independent and objective, which has a very wide scope, all the activities of the organization, and represents a form of control designed to evaluate the other forms of control at the organization level.

Internal audit is an independent and objective activity that gives the organization an assurance regarding the degree of control over the operations, a guide to improve its operations and contributes to adding an added value. It helps the organization achieve its goals by evaluating, through a systematic and methodical approach, its risk management, control and governance processes and making proposals to enhance their effectiveness.

The internal audit evaluates the relevance and effectiveness of the internal control, the operations and systems of the organization, it targets the reliability and integrity of the financial and operational information, the efficiency and the efficiency of the operations, the protection of the heritage, as well as the compliance with the laws, regulations and contracts by the organization. Internal audit is a component of the control system of the organization, which does not carry out control, but performs independent analyzes and evaluations of the processes carried out within it, in order to provide the management with a reasonable opinion on the functionality of the internal control.

In achieving their goals, management control and audit have distinct goals and different purposes, as follows:

a) the management control ensures an efficient and permanent mobilization of the energies and resources in order to reach the set objectives and provides the elements necessary for the managerial decision making;
b) the audit ensures the existence and functioning of the internal control system, evaluates the effectiveness of the risk management process and the management processes, and as a result, through the recommendations and conclusions they provide, offers management solutions for improving activities;

From the point of view of their goals and missions, the management control and the other forms of control represent intrinsic components of the management, and from the point of view of the exercise, they represent the autonomous, specific activity, which impose professionalism and fairness, serving both the management of the organization and the and its partners, as well as the state.

## Management control and its impact on the performance of economic organizations

In carrying out its tasks, the management control selects the information that will serve as the basis for the evaluation of the organizational performance, monitors the system of established performance indicators, evaluates the organization's performance by analyzing the degree of achievement of the objectives in relation to the planned results.

The management control responds to the needs of the organization, monitors the achievement of the objectives and the organization of the information system (Stere, Ionașcu and Filip, 2006). The implementation of a management control system is the prerequisite for decentralizing the responsibility for carrying out activities and decisions within the organization. Thus, management control compels management to adopt an attitude and make decisions by assessing the effects and substantiating them.

Management control can be applied in all types of structures, but especially in decentralized structures, where it finds its effectiveness, because the decentralized structure consists of a set of autonomous subsystems, with coherent and harmonized objectives. The purpose of management control is to provide useful information for managers' decisions (Ionașcu, 2003).

Management control uses information from financial accounting and provides information for financial accounting assessments and records. The use of financial accounting information in exercising management control should be done with some caution because this information is elaborated taking into account a number of accounting principles (prudence, permanence of methods, historical cost, etc.).

The function of management control must, in principle, be subordinated to the management. Its positioning at another level, limits the scope of application only to some technical execution activities, such as the operations of drawing up the financial statements, the calculation of costs, the elaboration of budgets, etc., to the detriment of the functions of assistance and support in the decision making. The integration of the management control in a hierarchical manner in the organizational chart, risks that it is perceived as an instrument of supervision and sanction. Therefore, management control is recommended to be organized in a functional manner.

## Conclusions

The economic organization, regardless of profile and size or the place in which it operates, must permanently evaluate its viability, its ability to compete and adapt, its economic-financial performance.

Management control is a component of the organizational control process and an essential factor of the functioning and evolution of the enterprises. It uses, in the fulfillment of its purpose, specific tools to ensure a planning system, an information system and a procedure for measuring the appropriate performances. The implementation of a coherent management control system ensures the management that the resources are obtained and used effectively and efficiently in achieving the set objectives, informs about the organizational realities and the possibilities to identify and prevent deficiencies and anomalies.

Management control is an information system that collects and processes both past and present information in order to measure the performance of the organization's activities. This becomes useful as the management problems are more numerous and complex.

The management control represents a control of the use of the resources allocated to the different activities and departments of an organization and offers the management an overview on the economic reality, based on the cost-value relation in formulating the concept of efficiency.

The establishment and implementation of management control within economic organizations requires, on the one hand, the existence of a conception and guidelines specific to management control, and on the other hand, the integration of management control practices within an adequate and efficient internal control system at the level organization.

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