

THE IMPACT OF MANAGEMENT CONTROL ON THE HUMAN FACTOR AND CONSEQUENTLY ON ENTERPRISE PERFORMANCE

NICOLETA CRISTINA MATEI *
MARIN ŢOLE **
DUMITRU MIHAI NEDELESCU ***

Abstract

The current economic environment where enterprises run their activities is characterized by diversified, competitive supply, superior to the demand; a supply that is heterogenous, unstable both quantitatively and qualitatively; comprising numerous technical as well as technological mutations. Under these circumstances, enterprise managers must ensure the achievement of objectives and performance. In order to accomplish these, human, financial, material resources are to be used.

The limits imposed by the usage of financial and material resources can be compensated for by means of the creativity and innovation pertaining to employees, therefore, the success of an enterprise becomes closely related to the capitalization of staff intelligence and skills, while the human resource becomes important for the management control by means of which an enterprise makes sure that its activities run according to plan and that objectives are met.

The paper presents the impact of management control on the human factor and further to the enterprise performance, strategies of employee motivation, aspects regarding the use of plans as objectives, as well as aspects concerning the use of control techniques regarding the assessment of results.

Keywords: *performance, management control, control techniques, strategies of employee motivating.*

Introduction

The main objective of an enterprise is performance, creating added value, i.e. a positive value obtained from the running of activities after the remuneration of all participant factors, including the enterprise capitals.

'Performance [...] can have at least three meanings or connotations: success, the result of an action or the action itself [...]. Performance shows capacity for progress, due to constant efforts. The term performance is the bearer of an ideology of progress, effort, of always striving for the better.' (A. Bourguignon, 1997)

For an enterprise to be performant, it needs to set up and have the capacity to reach strategic objectives by means of efficient usage of all current means, or, to put it differently, to be simultaneously efficient and efficacious.

Reaching strategic objectives can be achieved by doing certain activities by the enterprise employees under the managers' guidance. 'The process meant to motivate and incite the people in charge into doing activities conducive to the reaching of organization objectives' is management control. (R.N. Anthony, 1965)

The creation of affluence involves the consumption of material, financial, human and informational resources. Human resources are the ones making the difference between enterprises having similar financial and material resources because of the employees' educational and professional qualifications, skills, abilities and knowledge that can be turned into value, thus influencing the enterprise profitability in the long run.

*Senior Lecturer, Ph. D., Nicolae Titulescu University, Bucharest, Romania, (email: cmatei@univnt.ro).

**Professor, Ph. D., Romanian-American University, Bucharest, Romania, (email: tole.marin@profesor.rau.ro).

***Senior Lecturer, Ph. D., Romanian-American University, Bucharest, Romania, (email: nedelescumiha@yahoo.com).

Transforming employee knowledge into value also depends on the managers' capacity to influence their subordinates' work and guide them into reaching the objectives.

Contemporary Japanese management considers that the success of an enterprise is closely related to putting to good use of the intelligence of every employee.

In order for the enterprise of the future to continue its activity and be performant it will have to focus, among other things, on the degree of employee satisfaction so as for the latter to enjoy work and be committed to it.

'The enterprise's human elements are the ones able to learn, change, innovate and create if they are rightly motivated, being the ones that ensure the company survival in the long term'. (N. Bontis et al.,1999)

The right motivation, the use of the intellectual capacities of the personnel with a view to reach the objectives will ensure both the survival of the enterprise as well as the creation of value. Pursuing the reaching of objectives and the setting of employee motivation strategies can be achieved by means of management control.

This study objectives are to present the role of management control in the creation of value, the results' assessment, personnel motivation strategies and the indicators proposed to be used as performance evaluation instruments.

1. Management control and its role in creating value

Managers of any enterprise consider three parameters when running the business: objectives, means and results.

Objectives must correspond to the the aims pursued by the enterprise in the long run. Means are represented by the resources used in the running of objective-reaching activities, and the results represents the consequences of the actions undertaken in order to reach the objectives.

There is an interdependence relation between objectives, means and the results obtained by enterprise. Objectives are set in accordance to the means available to the enterprise as well as to the expected results, means will be allotted depending on the objectives settled and the results pursued, while the actual results will be the consequence of using the means efficiently and efficaciously. At the same time, the results obtained will be compared to the initially settled objectives in order to find out the deviations or the degree of achievement of the latter.

"The process by which people in charge make sure that the necessary resources are obtained and used with full efficiency and effectiveness in order to reach the objectives set by the enterprise"¹ is management control. Therefore, the role of management control is to ensure the correlation of the objectives to the resources; to set up a system of indicators that would allow the decision-makers to monitor the evolution of the enterprise; to adjust the behaviour of the factors with a view to reach the objectives.

"Management control helps the managers to guide the actors into getting organized for performance." (C. Alazard, S. Sépari, 2001). Consequently, management control urges the people in charge to act as the enterprise needs, to use the means available in order to reach the objectives settled, to assess the results of the activities undertaken and compare them to the ones initially settled, and if the former are not up to the expectations, to take corrective steps so as the global activity may ensure the creation of value.

Management control does not have the role to sanction, but to recommend, suggest, notify. Thus, the control system will be regarded as an assistant to the managers and not as a supervisor.

The purpose of management control is the provision of information useful to the managers' decisions. The information will be synthesized and presented by control panel boards, scorecard balances, various reports, depending on the informational needs of the management of the enterprise and it has to meet the following characteristics: to offer a representation as faithful as possible to the

¹ **Dictionnaire fiduciaire, organisation et gestion**, La villeguerin Editions, Paris, 1991, p.9

reality; to be provided in due time; to indicate all the elements that would allow the decision-making process; to be adapted to the issue under investigation; to be accessible.

Management control by means of its instruments mentioned above (control panel, scorecard balance, reports, etc.) informs the management with respect to the way in which the resources are used and the objectives are reached, thus contributing to the decision-making with the view to create value. It is equally a system of regulating the behaviours of the enterprise employees and guiding them towards performance.

2. Control techniques and results evaluation

Results evaluation involves the comparison of the objectives settled to the actual achievements and if applicable, the finding of deviations. It can be achieved by using the budget control and the control panel.

"Budget control represents one of the management control techniques that allows, by starting with a decentralization of responsibilities, the existence of a control in the framework of a budgetary exercise (generally one year), of the whole system of enterprise activities, translated into monetary units. It consists of a permanent comparison of results and objectives, in order to:

Look for the differences' causes;

inform the various hierarchical levels;

take the necessary corrective steps or exploit the favorable differences;

appreciate the activity of the budgetary managers." (C. Alazard, S. Sépari, 2001).

Monitoring the activity of the enterprise and comparing its results to the objectives in the framework of the budget control implies the existence of budgets.

The budget, as a provisioning document, is elaborated over the period of one year and it settles the allotment of resources to each department, sector, centre of activity in the enterprise. It equally influences the ones using it by means of the responsibilities of each one.

The budget does not have a standard form, it can feature various forms and contents according to the informational needs of the persons using it and the professional judgement of the specialists that draw it up. However, the information supplied needs to be presented in a logical order, neither too numerous since it might affect the meaning and exactness of the data, nor too scarce because it might lead to the incurring of expenses too low or too high due to the user's lack of perception of the limits presented in the document.

By means of budgets, the management control seeks to obtain data with the purpose to know, plan and understand the important events that have an impact on the enterprise. At the same time, the indicators calculated and presented in the budgets help to assess the efficiency of the activity run by the budgetary centre, as well as its performance, allowing the evaluation of the results of the managers' actions and, at the same time, of the behavioral influence of the management control over the actors.

The evaluation of the results of the activity of an enterprise can be done by means of the control panel – an instrument measuring the performance and whose construction starts from „ the mission, vision and the key factors of success". (M. J. Epstein and J. Manzoni, 1997; L. Vilain, 2003).

The control panel gathers and presents a system of indicators linked by the important decisions and objectives of the enterprise and, at the same time, it makes comparisons between targets and achievements, highlighting the differences. „Highlighting deviations for the significant indicators and their analysis allows the identification of sideslips, errors and it represents a prior condition for the correction of the enterprise trajectory and of the modification of the enterprise projects". (N. Albu, 2005)

The indicators presented in the control panel allow the people in charge to know the evolution stage of the activity centre they run, future trends and therefore to take decisions regarding the corrective steps with a view to reach the settled objectives.

The results obtained by various centres of activity are actually the results of the activity of the employees, and the level of the indicators calculated and presented in budgets or control panels represent the degree of their performance. Consequently, budgetary control techniques are useful, among other things, for the employee evaluation which needs to be correct, fair, and made with the purpose to motivate, to stimulate them towards reaching the strategic objectives.

3. Employee motivation

Performance is built by permanently monitoring the activity, comparing the objectives and setting up the corrective measures. This action involves, among other things, the analysis and guidance needed for the human behavior to reach the expected results.

Management control participates to the process of analyzing human behavior by providing information regarding its results by means of the indicators calculated and presented in various instruments (control panel, budgets, reports, etc.). At the same time, management control participates to the process of guiding the employees' behavior by motivation.

A motivated employee is an employee who will contribute to the creation of value, to the enterprise's increase in performance. Thus, an enterprise that wishes to be performant must be interested in the employee degree of satisfaction.

Under the current economic context, namely the economic crisis, not only will material incentives not be offered on a continued basis, but they will fail to motivate employees in the long run. A big remuneration does not necessarily make an employee enjoy doing their activity and contribute to it by working more and better for the increase in performance of the enterprise, but it is the work environment, the relations with the superiors or peers that will achieve this.

Motivating every individual to reach the set objectives represents the managers' or the activity centres' duty, sometimes as a consequence of the notifications issued by the management control after signaling deviations.

Stimulating employees by management control could be achieved by means of:
evaluations and fair incentives, not necessarily monetary;

organizing management control in a flexible way that would allow decentralization, a certain degree of autonomy and initiative on the part of the managers in setting up the objectives assumed by the centre they run;

dialogue, permanent communication between the management and the operational personnel regarding the achievements and the objectives to reach.

Involving the employees in setting the objectives makes them more responsible and motivated to reach them.

At the same time, the perspective of long-term career development, the promotion of values can represent methods of stimulating the increase of employee performance and, consequently the enterprise performance.

Management control is a system of subsequent decisions that need to focus on the active participation of employees with a view to setting up the objectives, by motivating employees and thus leading to the manifestation of an invisible control model.

4. Indicators regarding human resources to be pursued in the performance measuring instruments

The development of human resources by lifelong learning, the involvement in the setting of objectives, the making of decisions regarding the corrective measures to be taken when non-favorable deviations from objectives' achievements are recorded, generates value for the enterprise. This value involves the definition of a set of indicators to be pursued in the framework of performance measuring instruments (C. N. Albu, 2008) as it follows:

indicators targeting productivity:

- value added as percentage from the remuneration cost – offers a more faithful representation of the productivity of each employee;
- the level of implicit knowledge per employee – knowledge inside an enterprise appears and develops as a result of social interactions that transform individual knowledge into collective or implicit knowledge, and the latter are the ones on which the organization can build competitional advantages. The indicator measures the degree in which the enterprise manages to incorporate knowledge;
- the relative increase of individual knowledge compared to the formation costs – it represents a degree of the enterprise concern for the preservation of a certain level of knowledge;
- indicators targeting processes:
 - degree of communicating the strategic information;
 - life-long learning – the employee participation to life-long programs reflect the degree of commitment for increasing or at least maintaining the level of their professional knowledge;
 - indicators targeting employees:
 - the degree of employee preservation – a high level of the indicator reflects a good working environment that will contribute to the employee motivation and the increase of performance;
 - the employee satisfaction – considers the acknowledgement obtained by the employees for the work done, the access to the necessary information necessary for work, the employee involvement in the decision-making process;
 - the degree of current employees preservation - this indicator can be used together with the degree of employee preservation in order to find out the extent to which their loss would have a negative effect on the enterprise's capacity to raise the value of its implicit knowledge;
 - indicators targeting the financial aspects:
 - the value of the employee knowledge;
 - knowledge per employee – offers information both on the employee perception on the knowledge formation and development process, as well as on the quality of human resources management;
 - employee knowledge as percentage of the total number of assets – offers information regarding the importance held by human resources in the whole system of the enterprise resources.

The above mentioned indicators can be used both for establishing the value of the employee knowledge for the enterprise, and the degree of satisfaction and involvement in obtaining performance.

Conclusions

In the current economic context where a wide ranging supply exceeds the demand and consumers are losing purchasing power, it can be said that it is not the enterprises that select their customers, but the latter choose the former.

It is customers that choose to buy the goods and services that cater to their needs and that offer the best quality-price balance.

Customers' income represents the revenue source for the enterprises as well. Therefore, in order to survive and create value it is essential to keep the current customers and attract new ones, and consequently enterprises will set up certain objectives which they are going to try to reach under efficient circumstances.

Reaching the objectives involves the use of the means available to an enterprise at a certain time. The most important resource used in the running of its activity by an enterprise is made up of the human resources and, more accurately, their knowledge, educational and/or professional qualifications. The more an employee is motivated the more they contribute to the increase of the organization performance. Consequently, enterprises must monitor the deviations of the achievements from the initially established targets and motivate the employee with a view to reach

the strategic objectives. Deviations' monitorization is made by management control techniques like budgetary control, but also by means of the control panel which equally allow the managers of activity centres to know their level of evolution and implement corrective measures, if unfavorable deviations are ascertained.

To conclude with, management control has a significant role for the motivation of the employees of an enterprise with a view to reach the strategic objectives and create value. Management control should feature certain indicators in its performance-measuring instruments that would show the degree of employee satisfaction as well as the impact of the latter's knowledge over the enterprise performance.

References

- Albu C. N., *Measuring Performance-Indicators for the Intellectual Capital Management*, Accounting, Business Expertize and Audit, no. 10/2008
- Albu N., *A Contingent Approach of the Use of Strategic Managerial Accounting Instruments*, Bucharest, 2005
- Bontis N., Dragonetti N.C., Jakobsen K., Roos G., *A review of the tools available to measure and manage intangible resources*, European Management Journal, vol. 17, no. 4, 1999
- Bourguignon, A., „*Sous les pavés la plage...ou les multiples fonctions du*
- Caraiani C., Dascălu C., „*Managerial Accounting: Integrated Accounting Technologies of Reporting and Decision*”, A.S.E Publishing House., Bucharest, 2010
- *Dictionnaire fiduciaire, organisation et gestion*, La villeguerin Editions, Paris, 1991
- Dumitrana M., Caraiani C., „*Management Control*”, Universitară Publishing House, Bucharest, 2010
- Epstein, M. J., Manzoni, J. , „*Balanced Scorecard and Tableau de Bord – translating strategy into action*, Management Accounting, August, 1997 *prospectif*”, *thèse professionnelle*, Mastère Spécialisé HEC, Ecole des Mines de Paris, 2003
- Vilain, L. , „*Le pilotage de l'entreprise : l'utilisation d'un tableau de bord vocabulaire comptable: l'exemple de la performance*”, Comptabilité, Contrôle, Audit, March, 1997