

Emerging Markets Queries in Finance and Business

Structures of management control system in public institutions

Anamari-Beatrice Stefan^{a*}

^a“Petru Maior” University of Targu Mures, Targu Mures, Romania

Abstract

Since the funds for higher education are scant and these entities need to attract its own resources or through the services or through existing projects, supervision through “management control” is fully justified. The starting points for organizing or implementing management control are general strategy, the student orientation and analysis of the internal service processes.

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1. Introducere

From historical point of view, the notion of performance, crossed three reference periods from the perspective of definition: a first period in which was a simplistic approach, reporting only to the notion of productivity and efficiency, in the second period it tackles issues of financial performance, lately shows a more complex approach by adding a sustainable vision. According to this vision, an entity should be evaluated not only from economic point of view but also depending on its social responsibility. (Cappelletti, 2012). According

* Corresponding author. Tel.: +40744345564;

E-mail address: beatrice.stefan@yahoo.com

to the dictionary, performance has been defined as a particular success obtained in a special field. From a practical standpoint, performance is a multidimensional concept that only makes sense in areas where it is used. In literature, this concept emphasizes the lack of precision of the concept. (Payre et al. 2013).

Economic performance was considered a long time, both in theory and practice relevant to the assessment of an activity. However, some authors consider that social performance is a strategic advantage (Hamel and Prahalad, 1990). Economic performance was evaluated by productivity, profitability and competitiveness (Naro, 2004). Emphasis was placed on return on capital and creating value for shareholders by calculating EVA and MVA (Copeland et al. 1991). These indicators were preferred because they are relatively simple to use and entities' objective was to maximize short-term profit for shareholders. In this way was ignored the social potential of entities considering human resource as cost and not a strategic resource (Cappelletti, 2006).

If we look at the overall activity of an entity, its performance is multidimensional ((Burlaud et al. 2004), including besides economic performance the social performance also. On the one hand, social performance was related to satisfaction of employees (Savall, 1981), and on the other hand there are authors who determine and analyze human resource management effects on economic performance (Pfeffer 1995, Shaw et al. 2005).

Authors such as (HTJohnson, 1992) and (P.Mevell, 1990), however, appreciate that employees are the source of competitiveness and it is mandatory, at organizational level, to impose a human resources management not only financial management. Human resource management, in terms of social performance, it requires a definition of the subject but also an evaluation method. These elements are difficult to disentangle because social information system is poorly represented in the accounting information system.

In this context, it is considered that an entity's employees are a competitive advantage that is difficult to duplicate in the competition level (Noguera 2002). Other authors estimate that employees are a strategic sustainable resource (Hamel and Prahalad 1990) or a key resource (Wright 1994) or a sustainable competitive resource (Kofman, Senge 1993). For social performance management, some authors, such as (Martory 2001), were stopped on intangible capital and social performance indicators. It shows that short-term social performance is evaluated based on indicators of effectiveness and efficiency, and long-term social performance is evaluated based on quality social investments made.

For an effective and efficient management of social performance, it could be a useful a model of socio economic management control, based on the theory of socio economic organizations.

In this context, it was proposed method of determining socioeconomic hidden costs (ie costs unidentified and unattended in the financial accounting information system). Under this method, the entity is analyzed considering some development expected to enable it to achieve its objectives and function of social constraints. Explanatory gap indicators are variable of the operating model and reflect the social efficiency of the entity.

This method was developed by H. Savall, 1974 and brings together the opinions of M. P. Follett, 1924, R.N. Anthony, 1965 and RL Simons, 1987. M. P. Follett considers the company both an economic and a social entity, consider that from this point of view it requires a socio economic analysis.

RN Anthony, who initially defined management control as the process by which managers ensure that resources are obtained and used effectively and efficiently to achieve the objectives of the organization, return to this concept, defining it as the process by which managers influence other members of the organization to achieve corporate strategy, thus emphasizing the human factor.. Simons RL highlights two dimensions of management control: economic and strategic dimension and psychosocial and organizational dimension. This method aims to develop the sustainable socio-economic performance of the entity, recognizing the compatibility of social and economic performance..

Under this method, the sustainable development performance is possible only reconciling the two adjectives of performance. Subsequently other authors (Pfeffer 1995,2005) showed that social performance and the quality of management contribute substantially to the economic performance of an entity.

The instruments and methods of socio-economic management control are organized in three directions: a direction of management tools, a direction of change and cost management and a strategic decision direction.

This methodology is called HORIVERT (horizontal and vertical). It has been applied to a variety of entities in various industries in over 30 countries over three decades since 1973 by ISEOR under Professor Henry Savall.

The method was first applied between 1973-1978 in small entities. The grid management tools include time management, skills grille, dashboard, priority plan, strategic action plan and periodically negotiable activity contract.

In the same period, it was approached through socio economic management control the concept of living conditions in the workplace. This was correlated with six malfunctions: working conditions, work organization, time management, communication, coordination, concentration, integrated training and implementation of the strategy

In the second phase 1978-1983, represented by the direction of change and costs management, has been established a socioeconomic model that enables prevention of certain malfunctions and in consequence of some hidden costs, this was called „conduite de changement”.

Starting with the third phase (1984-1990) it could be applied to the whole of entities HORIVERT method. In this time the development and improvement method based on previous research has allowed studying in successive steps of the companies with up to 300 employees in the first three years and companies up to 3,000 employees over the next three years. Switching to undertake studies on the implementation of the method to companies of up to 30,000 employees took place after 1990

Wrongly, the notion of management control is considered limited to control activity in the sense of checking - penalty. The management control in reality is a functional management concept with the role of coordinating planning and control information to obtain desired results.

Over time, there may be an extension of management control in various fields. Of course the most important share have similar production companies but is also found in other entities in services, trade, financial and banking field. Depending on the activity and information needs, management control has certain specific elements adapted

In manufacturing, management control increasingly folds the company functions. In companies with commercial profile, management control is adapted to specific elements aimed at general management issues, personnel, product range, managing commercial spaces all this contained in databases developed more or less encircling information about goods (scanning products, electronic management of inventories), and about customers (loyalty, satisfaction).

In public institutions need to introduce management control is determined by a permanent increase in the expenditure and impaired quality of services provided. A particular situation is the fact that in these entities do not exist or is difficult to distinguish a clearly defined range of services.

The cost of service in health institutions has certain particularities: the cost of the various treatments offered will take account of the activities carried out for each individual patient. Activities involve a normed consumption of materials (medicines, tools, medical equipment, etc.), but also personnel costs (that allocate a certain period of time for carrying out the various activities). Analysing the different types of treatment this can be decomposed into the component activities under each area of responsibility. For each activity, it identifies the necessary staff (training number of persons needed, time required, and remuneration corresponding unitary activity) and consumption of materials.

These items along with other items lead to the identification of the unit cost of the medical services represents one of the elements to be tested. Along with this, management control must realize a control of diagnoses in terms of their frequency and type, an analysis of medical system that generates inputs for the controlled unit

In terms of institutions of higher education, besides the teaching activities, a growing importance is awarded to research activities; these are in our visions difficult to standardize from qualitative insights.

Based on previous findings, it is evident that in the public institutions management control has additional meanings towards control of companies in the field of production, both in terms of the difficulties arising from the identification of the services and in the light of the prevalence of social objectives, organizational, human to classical economic objectives (Burlaud and Simon, 2003). For this reason, the implementation technique is difficult, and the results are questionable or challenged. To determine a cost must be identified first the object to which it refers to a good, a service, a feature, an activity. If in the case of companies is easy to identify the cost object, in the case of public institutions, due to the specificity of the work, this is virtually impossible. In this context, the object of calculus is defined most often in abstract way: in the case of a hospital, improving the health status of the patient between the entry and the exit date; in the case of schools, increasing levels of skills between the beginning and end of the academic year. Such a cost is calculated on days of hospitalization, the cost of an hour of courses, and this is actually the cost of means of production not of the product itself.

2. Principles of management control system in public institution

There are opinions that, control of the management of universities seems inaccessible due to the specifics of the activity but also because of a double structure. The administrative and technical structure is interested in social and economic parameters of the activity and it applies a control based on a logic of obedience. Decision-making and leadership structure consists of teachers whose control methods include the standard behaviors (Payre, 2013).

Since the funds for higher education are scant and these entities need to attract its own resources or through the services or through existing projects, supervision through “management control” is fully justified. The starting points for organizing or implementing management control are general strategy, the student orientation and analysis of the internal service processes.

Model 3E (Effectiveness-Effectiveness-Economy) presented by Horvat et al. 2007, may be considered as a frame of reference according to the particularities of the public institutions. This model realize a hierarchy of impact objectives: productivity, efficiency of processes and costs. In accordance with the objectives of the commitments, inputs are turn into outputs in a process. There are also opinions according to which to the notion of performance it can be assign four elements: efficiency, effectiveness, coherence and relevance (Marion et al., 2012)

The question arises if the activity of these entities should/could be gauged to make them better. So has appeared a new thinking current: ‘new public management’ (Hood, 1991; Mathiasen, 1996) which introduces the concept of performance management within the management control process by putting the question to what extent the performance criteria used in the private sector may be included in public sector (Ittner and Larcker, 1998). Considering the fact that public funds shall be affected in accordance with the objectives of the activities undertaken and that those who manage these funds are evaluated, such an approach is justified. Universities, as well as other entities, are important actors in economic and social life, which use constantly resources to improve performance in order to survive on socio-economic bases.

Some authors consider that, performance can be defined as the result of an action, the success of an action or the way of obtaining a result (Marion et al., 2012). In the case of universities, addressing global performance and/or evaluation of performance of those contributing to it, will depend on the choice between variants exhibited.

According to the definition given by Anthony, 1965, management control is the process by which those responsible, ensure that resources are obtained and used with effectiveness and efficiency, in accordance with the objectives of the Organization. According to this definition management, control involves managers who manage resources and coordinate the activity of other participants. Management control is part of the

company's strategy. Criteria for the evaluation of actions are the effectiveness and efficiency. Ambiguity of the management control is linked to uncertainty and complexity consolidated factor of human activity. But, it is accepted that the socio-economic management control is switch which creates added value (Cappelletti et al., 2007). A long period of time, it was considered that only economic and financial performance are important to managers and ownership, but these items of performance focused on short-term results and neglect the intangible phenomena related to human resource management, clients, etc. that influence long-term results.

Specific socioeconomic management control is the fact that sustainable development concerns the socio economic performance of the entity, considering that there is a compatibility between the economic and social performance. Thus sustainable development performance is possible only reconciling social performance elements with elements of economic performance.

This transformation of the concept of performance, in sustainable performance (the organization's ability to survive and to develop long-term) leads to more careful measurement and piloting of human capital and not just economic and financial performance.

Management control comprises four dimensions:

- Financial dimension
- Costumers dimension
- The internal processes
- Organizational learning dimension

Financial dimension includes financial indicators, at the level of institutions of higher education can be identified in wage costs, material costs, cost per student, income, etc., etc.

If in the case of a profit-generating entities financial dimension aims at maximizing the margin in order to cover variable costs, fixed costs and generate profit, in the case of universities high share of fixed costs in the cost structure generates specific challenges and objectives being transferred more revenues.

Clients approach includes indicators that measure customer satisfaction and customer loyalty. From point of view of higher education: students ' expectations in terms of quality of education, in terms of the conditions of implementation.

Size of internal processes includes quality indicators. For universities it pick up problem of allocation of resources between teaching and research, reducing or increasing the departments etc.

Organizational learning includes indicators as the level of skills and motivation of staff. At the University it refers both to the administrative staff and to that teaching. At teaching refers to the introduction of new disciplines, learning a foreign language, expanding the competence fields which supports improving research etc.

Global performance at the level of a University may define by multicriterial indicators and not just a single element. Information from the accounts of the undertakings are not being used to make decisions but rather rushing are considered a means of justification of decisions taken. The information contained in the management control instruments must satisfy the information needs of multiple categories of users: the University Administration (information regarding long-term budgetary management, handle your strategic decision), information for the assessment of collective and individual performance, information to quantify the cost of specialization, cost per student, information for optimization of financial control (Dreveton et al. 2011).

A model of management control must be adapted to the structure of which it controls. In the case of universities, the activities necessary to fulfill their duties or are the ones that generate the table costs. The distribution of these activities is made between administrative and technical side, i.e. part of education and research, and can be observed a certain drag staff considering concrete actions that we conducted.

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