

Operative dimensions of corporate control systems

by Carlo Clementi

In an increasingly competitive economic and social context, the traditional corporate control systems, based on accounting and financial reporting, appear no longer adequate for a proper business management. New market expectations have progressively modified the usual role of control systems. The reasons for this shift can be found in the more evolved and constantly changing demand in terms of product and service customization, in the greater requirement in term of flexibility and adaptation, in the immediacy and a larger articulation of response, emphasized by the physical to digital market overlap. Until a few years ago, companies mainly used tools and abilities coming from the accounting and administrative sector, to obtain data and information to evaluate their performance. Measurements were based on what had been achieved, with little attention for what concerned the immediate future of the company or the organization. At present, even small and medium-sized companies show increasingly complex requirements, creating the conditions to enhance the measuring systems. Those are expected to shift from simple diagnostics to more complex ad-active forecasting and control systems, specifically designed to manage complex economic periods or situations of intense competition. These requirements are also in line with the request of the most advanced companies and organizations to equip themselves with management tools to improve both the quality of the decisions taken and the quality of the communication across the organizational structure.

It is essential for a company or an organization, that wants to be strongly organized and be able to compete in developed and complex markets, to have a control system in line with its own expectations. On the one hand, for the immediate benefits on the company's ability to produce and sustain performance to meets customers' expectations, while on the other hand, for the reduction of the risk level for investors and credit partners, as a result of the improved ability to manage deviations between results and objectives. In accordance with the most recent findings, the diagnostic component of the control system is predominant in the less dynamic organizations operating in mature markets. Their monitoring is focused on the efficiency of actions already

carried out, rather than on adapting processes and activities which fit the immediate future by a structured architecture of control. Therefore, it is important for companies or institutions to highlight the processes and models behind the control system, as well as their alignment regarding the organizational structure and the strategy pursued. In this way the organization generates the conditions to effectively satisfy the relationship between management tools, business strategy and company performance.

According to a classical definition, the corporate control system is described as a structure of integrated procedures that uses information to maintain or change the path of organizational activity. From this point of view, it is evident that the operational purpose of a control system is based on the logic of change aimed at achieving expected performance. As a result, there is a large number of organizational structures investing in tools to manage activities and processes in a more performing manner, resulting in greater sophistication to control, monitor and integrate information. However, there are supporters in favour of less systemic and formal approaches, especially in smaller companies and with an organic structure. This point of view believes that less structure and complexity would be better suited to innovation and change strategies. Studies conducted on significant samples of companies highlight that a good control fosters, as a logical consequence, a good governance system, operational efficiency, improved performance and increased profits. Nonetheless, findings reveal that the best performing companies are those that have given greater importance to the predictive and intangible aspects of the control system and which have aligned and connected it to the company strategy. Consequently, they receive useful information to plan future activities and to use them within the communication platform, both for the definition of budget objectives as well as for the continuous monitoring of their quantitative and qualitative results.

A question that many organizations ask themselves is how to properly design and manage a control system in environments that pursue flexibility, innovation and creativity. A similar question also comes from companies working in particularly competitive markets or in highly informed and professionalized environments. These companies or institutions require systems that could assist not only the management but also all employees, to intercept and respond to the new customers' needs in a flexible, efficient and immediate manner. The

current control systems are not so effective as to allow managers to give a certain discretion to their employees, without this entailing a high level of risk in return. In the absence of adequate systems, they tend to monitor continuously to avoid surprises. Managers operating in dynamic and competitive environments spend a significant part of their time to ensure collaborators do what they expect from them. In this way, they use resources which would be best employed to foster, lead, and support companies' expansions or to explore alternative ways to meet customers expectations.

A contemporary control system must allow various levels of an organization to have the evidence of each employees' contribution within the strategic framework defined by the company. This encourages the development of certain capabilities, such as self-assessment, identifying improvement areas or latent opportunities. From this approach organizations can also expect a contribution to the communication activity aimed at strengthening corporate culture and values, as well as inspiring employees' behaviour towards a coherent and collaborative style.

For a large company, the control system may appear to be an essential requirement to guarantee operations, coherence of results, consistency to expectations, and a clear understanding and articulation of corporate values. For smaller organizations, although they can profit from better informal contact and inter-organizational relationships, the control system is equally essential. In fact, the latter are frequently hampered by functional fragmentation, demanding operations, limited alignment between operational aspects and the strategic direction undertaken, as well as reduced planning capacity.

The main advantage of a corporate control system is that this could become a platform for discussion and analysis within the organization. An important evidence of the quality of the system in use is the exchange of information between the various levels of the company, both in quantity and in quality. A right usage of the control system must facilitate the diffusion of the corporate culture, of the values that it entails, and of the behaviours that are deemed acceptable and those that are not. Moreover, it should help the sharing of the corporate vision and the intermediate objectives for its achievement. In return, it should allow the top management, middle managers and the entrepreneur to

have a clear and exhaustive picture of problems that the organizational structure faces on a daily basis, as well as areas of opportunity that can be gathered from direct contact with customers.

A further aspect to consider about control systems is given by the degree of alignment with the company strategy. Over the last few years, more and more companies and organizations have worked to enhance their control systems, extending their monitoring to a different nature of data other than typical accounting or financial ones. Such an orientation towards intangible factors is supported by the beneficial effects found in terms of company profitability. In fact, this approach provides management with a better perspective on their investment choices, returns employees better information on the results of their activities, and offers investors a clearer view of overall corporate performance. Despite the importance of the benefits of a more strategic control approach, not all companies have proven able to apply it correctly and take advantage of it. This highlights the importance of a different management methodology required by the intangible factors, since they are elusive and barely measurable by normal accounting and financial reporting. The problem is that although these companies have taken account of non-financial measurements, many of them adopt complex and erroneous methods for identifying, analysing and subsequently managing these measures. Many of them fail to correctly define the causal link between the strategic objective and the action to be measured, being distracted by erroneous or preconceived ideas, or failing to weigh the significance that each data has on the defined objective, not analyzing the degree of correlation. Others do not consider the relative importance among the different variables, which could determine a different allocation of resources towards apparently less significant parameters.

The definition of a valid control system requires a multifunctional approach and the ability to relate the different company functions, through the definition of a causality scheme, with the hypotheses reported in the strategic business plan, clearly stating objectives and responsibilities assigned. Such a system allows transforming the data collected into meaningful information that the company can use in the evaluation, decision-making or adjustment processes. Furthermore, using predictive mathematical models a company or an institution

can have an interpretative depth of data to identify new targets and drivers of performance.

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