

OUTSOURCING CONTROL FUNCTION

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Abstract:

Outsourcing is needed when companies want to be more effective on cost and time management. Moreover, such companies choose this kind of policy when more independence is demanded. Control function can be achieved differently for the company (inside or outside). If it is part of the company flowchart, control is an insource function, and if it is made by an external entity then control is an outsource function. Control function can be performed by several entities and the particularities of each situation will be described/presented in the work ahead. Delegating control function can be performed by companies belonging to the same group of companies, the parent company or an external third party totally independent from the company.

Key words: outsourcing, control function, management

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1. INTRODUCTION

The core for every business is to grow, succeed and survive for long. In order to achieve a sustainable development, it lays down its own objectives that/which have to be tracked in their achievement.

For this purpose, the management is outlining the responsibilities among the employees while directing and motivating them. It is not certainty that the objectives may be obtained in a way as planned or wanted, after the plans being set and the responsibilities being delegated. There might be several reasons why the established objectives may fail to be achieved.

So the controlling function of business in all activities becomes obvious while its importance is understood in terms of the results that are achieved. In this regard controlling is a needful and basic function of management.

2. CONTROL DEFINITION, TYPES AND STEPS

As a function of management, controlling is very important in a business organization to ensure that the current situation of a business is on track of what is expected to be. One of the most obvious benefits of controlling function is that it provides the accurate information which is what it is wanted for an effective decision making process as well as maintaining the effective functioning state of a business.

2.1. The definition of internal control

Controlling is the process through which the activities are not only turned into producing better results, but they are also improved in a way to continue success while eliminating the obstacles that get in the way of business progress.

Controlled is defined by the business dictionary as a management function aimed at achieving defined goals within an established timetable, and it is usually understood to have three components:

- (1) setting standards,
- (2) measuring actual performance,
- (3) taking corrective action.

Controlling consists of verifying whether everything occurs according to the adopted plan, the issued instructions and the established principles. Controlling ensures effective and efficient use of organizational resources in order to achieve the planned goals. Controlling measures the deviation of actual performance from the standard performance, discovers the causes of such deviations and helps in taking corrective actions.

2.2. Types of internal control

In general terms, there are three, commonly accepted forms of controls:

1. *Administrative control* – the activity that monitors if the laws, regulations, policies, practices and guidelines are followed for an Information Security or other operational risk program.
2. *Logical control* – the virtual, application and technical control (systems and software), such as firewalls, anti virus software, encryption and maker/checker application routines.
3. *Physical control* – the control through a "physical" key to a door to gain access to an office space or storage room, or video surveillance systems, gates and barricades, the use of guards or other personnel to govern access to an office, and remote backup facilities.

All these elements are critical to the creation of an effective control environment. However, these elements do not provide clear guidance on measuring the degree to which the controls mitigate the risk. Instead, the Simple Risk Model uses an alternative set of elements that provide better means of weighting the level of mitigation:

1. **Preventive** (feedforward control) – the controls that prevent the loss or harm from occurring.
2. **Detective** (concurrent control) – the controls that monitor activity to identify instances where practices or procedures were not followed.
3. **Corrective** (feedback control) – the controls that restore the system or process back to the state prior to a harmful event.

Internal control activities can be structured taking into account several criteria, as follows:

- a) According to the verified activities, internal control can be classified as follows:
- Administrative control – represents the hierarchical control executed by people in leadership positions on the subordinate departments and individuals. It is a task resulting from prerogatives of work and runs permanently.
 - Administration control – represents the audit of legal stipulations regarding the administration of material and financial resources considering the primary documents and accounting;
 - Preventive financial control – represents the control performed to prevent conducting transactions that are not legal, regular, or in the credits/budget limits;
 - Control exercised between departments or employees as a result of separation of tasks, objectives and participation in achieving the same flows of goods and information;

- Self-monitoring employees for the activities they fulfil;
 - Public internal audit;
- b) By the time of the inspections, internal control is classified as follows:
- Preventive monitoring – exercised prior to operations;
 - Simultaneously control – exercised during the conduct of operations;
 - Subsequent control – exercised after operations.
- c) Depending on the domain where the internal control is , performed, it can be classified as:
- Organizational control – the control that aims to highlight how the organization plan of entity is implemented, how the authority and responsibilities are allocated and how the hierarchical pyramid functions;
 - Division of duties control – the control that aims to reduce the risk of aggregation of responsibilities, which means reducing the possibility of an employee to perform more operations related to a transaction (authorization, payment, administration, accounting), a situation that would allow a person to commit hide errors, irregularities within the assignments they have;
 - Material control – the control of administration, asset security and authorized access to assets;
 - Authorization and approval control – the control which shows if the operations are conducted in accordance with the decisions established by the management company;
 - Arithmetic and accounting control – the control that monitors whether the recording and processing of economic transactions were authorized, if all transactions were recorded and if the records are accurate. This control includes verifying the arithmetic accuracy of records and checking the accounting correlations (accounts, financial statements, etc.);
 - Personnel control – the control that shows how the selection, training and performance answer the needs of the company. It also verifies whether the competence and integrity of the staff is proper for the assigned responsibilities;
 - Supervision control – the control which aims to highlight if the persons that are responsible for tracking and recording daily transactions, carry out their duties.
- d) Depending on what is monitored, internal control can pursue:
- Outcome controls are generally preferable when just one or two performance measures (return on investment or return on assets) are good gauges of a business's health. Outcome controls are effective when there is little external interference between managerial decision making on the one hand and business performance on the other. It also helps if there is little or no coordination with other business units.
 - Behavioral controls involve the direct evaluation of managerial and employee decision making, not of the results of managerial decisions. Behavioral controls tie rewards to a broader range of criteria, such as those identified in the Balanced Scorecard. Behavioral controls and

commensurate rewards are typically more appropriate when there are many external and internal factors that can affect the relationship between a manager's decisions and organizational performance. They are also appropriate when managers must coordinate resources and capabilities across different business units.

e) *In terms of level of proactivity and outcome versus behaviour*, it is important to recognize that controls can take on one of two predominant forms:

- Financial control involves the management of a firm's costs and expenses to control them in relation to budgeted amounts. Thus, management determines which aspects of its financial condition, such as assets, sales, or profitability, are most important, tries to forecast them through budgets, and then compares actual performance to budgeted performance. At a strategic level, total sales and indicators of profitability would be relevant strategic controls.
- Nonfinancial controls track aspects of the organization that aren't immediately financial in nature but are expected to lead to positive performance outcomes. The theory behind such nonfinancial controls is that they should provide managers with a glimpse of the organization's progress well before financial outcomes can be measured. [6] Increasing numbers of organizations have been measuring customer loyalty, referrals, employee satisfaction, and other such performance areas that are not financial.

2.3. Steps and actions of internal control

A typical process for management control includes the following steps:

- 1) actual performance is compared with planned performance,
- 2) the difference between the two is measured,
- 3) causes contributing to the difference are identified,
- 4) corrective action is taken to eliminate or minimize the difference.

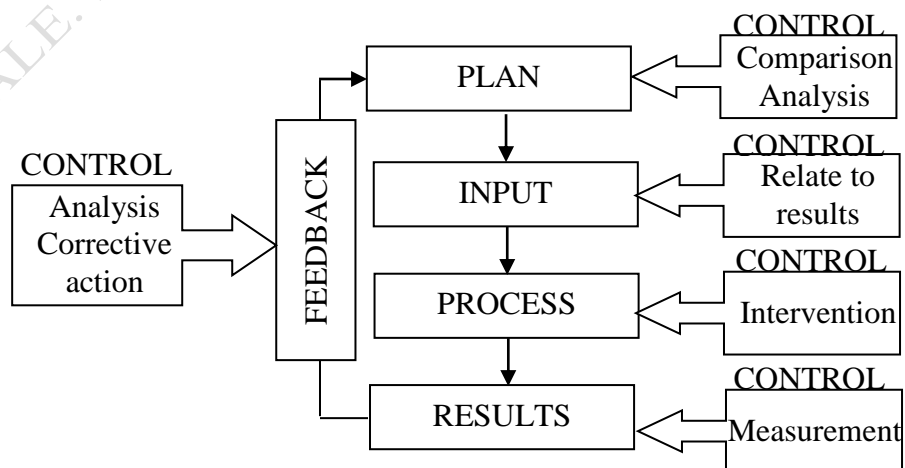


Figure 1. Control model throughout all the activities

The control process is the functional process for organizational control that arises from the goals and strategic plans of the organization.

Business literature puts forward many forms of control steps structure, but it synthesizes the complete activity of a company. As shown in the above figure, control is performed throughout all the activities of a company, in every aspect.

3. OUTSOURCING THE CONTROL

Outsourcing means transferring a process, a service or management to a third-party company. Outsourcing has been described as the assignation of services from one company to another.

In the situation that cost is decisive for outsourcing production, then independence is the most important for the outsourcing control. The independence of control function is required by the basic purposes:

1. it facilitates coordination,
2. it helps in planning

Also the need for outsourcing control is because a very important resource for the operating of any trader (economical agent) is the human resource. The employees from control department require specialization, financial motivation and other benefits and all of this generate additional costs. Between the employer and employee there is a permanent conflict of interest, the employer wanting to have a lower labor expense and the employee wanting to have a salary as big as possible. But between the employee and the employer their interests should be able to align better in the interests of both parties.

3.1. The ways of outsourcing control

Analyzing the previous figure and considering the basic purposes of controlling, it can be said that the control function or parts of it can be easily outsourced.

How the control function will be outsourced it depends on the management's decision?

Management's decision depends on having more options on how the control function will be outsourced:

a. Singular-sourcing is transferring the control function integral to a single third party;

b. Co-sourcing is performing an activity by both the staff from inside an organization and also by an external service provider. The aim of work may focus on one or more aspects of the internal audit function.

c) Multi-sourcing refers to large outsourcing arrangements, in which control function is supported by many providers.

c. Crowd-sourcing means the act of taking a task traditionally performed by an employee and outsourcing it to an undefined, generally large number of providers.

Thereby the control activity can be integral or partially outsourced, also to a single third party or to many parties. The future of a company's success could be linked to a successful relationship with outsourcing partners.

3.2. Control the outsourced control

When outsourcing does not work as planned, it can be noticed that the companies/ businesses are largely dependent on a provider and therefore very inflexible. Consequently, these challenges must be taken into account before a company decides to outsource, but also to have a control department which controls the outsource function

(in this case – control function). It is a situation of opposites derived from the situation that any activity must be controlled, as it was said above.

A vulnerability is a defect in a process, system, application or other asset that creates the potential for loss or harm. Vulnerabilities are measured primarily through the identification of control deficiencies (defects or weaknesses) to determine a system's or process' propensity for failure.

Depending on the form of outsourcing and taking into consideration the independence of the control activity, the auditing outsourced control function must be done by an internal employee in leadership positions.

4. CONCLUSIONS

There are several hierarchical levels and managers playing a variety of roles in an organization. And one of the most important roles that they need to undertake is controlling which ensures work rules and discipline while it leads to get the things done in a manner which is expected of.

However, this function should not be taken in isolation while there is a need to properly understand its functionality. It is aimed at improving effectiveness, efficiency of a business entity and achieving better results. It is therefore to be used to support the organization in achieving its objectives - not otherwise.

It must be noted that an effective control system can bring better results while it can lead a business organization to succeed, survive and attain sustainable development.

These are the characteristics of controlling function of management that conclude this paper:

1. **Controlling is an end function** – because the final results are verified with plans at the end of each activity;
2. **Controlling is a pervasive function** – since it is performed by managers at all levels and in all types of concerns.
3. **Controlling is forward looking** – because effective control begins with a past analysis and makes recommendations to avoid deficiencies spread out by an ineffective activity.
4. **Controlling is a dynamic process** – in order that using reviewable methods changes can be made if there are failures of the plans.
5. **Controlling is related with planning** – since planning and controlling are two inseparable functions of management. Without planning, controlling is a meaningless exercise and without controlling, planning is useless. Planning requires controlling and controlling requires planning.

Of all the types of controls, preventative controls are clearly the best, since they minimize the possibility of loss by preventing the event from occurring.

Corrective controls are next in line, since they minimize the impact of the loss by restoring the system to the point before the event. However, the restoration procedure may result in some degree of loss, since the restoration procedure may lead to the unavailability of systems and applications along with the possible loss of productivity, customers' dissatisfaction, etc.

The least effective form of control, but the most frequently used, is detective control through identifying events after they have happened. Depending on how soon

the detective control is invoked after an event, a business may uncover a loss long after there is any opportunity to limit the amount of damages.

One other valuable distinction to be made with controls is whether they are manual or automated.

A business can implement **manual controls** to minimize the chance of fraudulent payments, such as requiring an administrator and a manager to manually sign the applicable paperwork to indicate that the transaction was authorized and approved.

As an alternative, the business could **automate these controls** by introducing a computer program with logical access, segregation of duties and maker/checker controls.

Regardless of the type of control used an effective outsourced control function depends on the observance of settled standards and the terms established between the parties.

5. REFERENCES

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