Improving Organizational Productivity: In Managerial Functions

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ABSTRAKT

Efektivnost organizace se neměří počtem uzavřených kontraktů, ale počtem spokojených zákazníků.

Detailní analýza a návrh efektivního systému controlling v rámci řízení organizace, což je samotným obsahem této diplomové práce, je velmi důležitou součástí řízení každé organizace. Je neoddiskutovatelným faktem, že schopnost kontroly vlastních výkonů je klíčovým faktorem úspěchu jakéhokoliv podniku.

Hlavním cílem projektu, který je v rámci této práce zpracován, je vytvoření systému controllingu v rámci společnosti Express Leasing. První část projektu je zaměřena ekonomickou analýzu a analýzu řízení společnosti. Tato část práce se zaměřuje na klíčové oblasti společnosti.

ABSTRACT

The efficiency of an organization is not measured by the number of contracts signed, but by the number of customers satisfied and the prospective signature of some new contracts with them.

Thus, detailed analysis of the controlling function within this project, which actually represents the subject of the project, has always been and still is at the moment a very actual topic as it is undoubted the fact that controlling process in any company is one of the incipient and most important issues that stays at the basis of any enterprise.

In this project are analyzed in depth all the aspects of business activity from "Express Leasing”, both economic analysis as well as the management system per whole. The paper comprises two main parts with three chapters per each part and respectively in each chapter are analyzed some specific features of the enterprise.

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I hereby declare that the print version of my Master's thesis and the electronic version of my thesis deposited in the IS/STAG system are identical.

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INTRODUCTION

"Management is the profession of control."

(Stafford Beer)

It is well-known by all that the **process** of **management** is defined by the four functions of it: *planning*, *organizing*, *leading*, and *controlling*. In order to reach the company's goals and maintain a competitive advantage of it the managers should specifically organize each of these four *functions*. So, in order to illustrate the whole cycle of the **management process**, reflected through the prism of its four main *functions*, I have chosen for it a local Moldavian leasing company, Express Leasing. Thus, my work will be mainly focused on the description of the **management functions** and their reproduction within Express Leasing, their interrelation as well as depiction of their main deficiencies which will be respectively followed by the development of some corrective actions for their improving and efficiency in the project part.

The ***purpose of this project*** is not only to research in depth the entire management process of the company, emphasizing especially the controlling function, but also basing on the studies conducted to provide and elaborate specific suggestions, methods for improving the controlling function within the company. The main reason I have chosen to discuss particularly the **controlling** part from the **management process** is mostly because of the fact that the **controlling function** of management can be a critical determinant of organizational success. That's why nowadays in many companies **controlling process** became one of the most actual issues but at the same time a challenging one as namely this part from the entire *managerial cycle* embarrass the companies' economic growth and prosperity. Another reason that made me to concentrate my attention towards **controlling function** is simply due to the fact that nobody in this world likes to be controlled neither in his personal nor professional life when it leads only to lesser personnel productivity. Hence, by describing how **controlling process** is reflected within Express Leasing I will try to touch the common deficiencies of it and correspondingly in my last chapter from this project to develop concrete steps for it's improving and effectiveness.

Being the last step from the **management process** ***control function*** is extremely *important* one as via it can be evaluated and concluded company's activity and only by proper control we can make sure that the enterprise objectives and plans desired to obtain them as being accomplished. Last, but not least important fact that I would like to emphasize is that although **controlling** is perceived almost negatively by employees we should make it as an absolutely *active* and *transparent* **process** within any company by which employees would not be afraid or discomforted but an unconditionally *obvious* and *motivating* activity for employees and definitely *productive* one for the company's movement.

I. THEORY

Chapter 1 – Description of Management and Managerial Roles

1.1. *Definition of Management*

Accordingly to Bruno Dyck and Mitchell Neubert (2008) **management** is “(1) the process of planning, organizing, leading, and controlling human and other organizational resources with the aim of (2) the effective achievement of organizational goals. On the other side Chuck Williams (2006) define **management** as “getting work done through other”. Pat Carrigan, a former elementary school of principal who became a manager at General Motors’ car parts plants, says, “I’ve never made a part in my life, and I don’t really have any plans to make one. That’s not my job. My job is to create an environment where people who do make them can make them right, can make them right the first time, can make them at a competitive cost, and can do so with some sense of responsibility and pride in what they’re doing. I don’t have to know how to make a part to do any of those things.” Pat Carrigan’s description of managerial responsibilities indicates that “good **management** is working through others to accomplish tasks that help fulfill organizational objectives as efficiently as possible.” In contrast Mitch McCrimmon (2007) says that “**management** is an organizational function, like sales, marketing or finance. It doesn't necessarily mean managing people. We can manage ourselves or the material assigned to us at work. If you managed a project very well on your own, it would mean that you did the job in a well-organized, efficient manner, making good use of all resources at your disposal.” And much later, management scholar, Peter Drucker (1993) defined management as “Supplying knowledge to find out how existing knowledge can best be applied to produce results is, in effect, what we mean by management. But knowledge is now also being applied systematically and purposefully to determine what new knowledge is needed, whether it is feasible, and what has to be done to make knowledge effective. It is being applied, in other words, to systematic innovation.”

Management is like investment. Managers have resources to invest - their time, talent and, possibly, human resources. The goal (function) of management is to get the best return on such resources by getting things done efficiently. This doesn't imply being mechanical or narrowly controlling as some writers on management suggest. The manager's style is a personal or situational matter and it has evolved over time. With highly skilled and self-motivated knowledge workers, the **manager** must be very empowering. Where the workforce is less skilled or not very motivated, the manager may need to monitor output more closely. Skilled managers know how flex their style, coach and motivate diverse employees. Getting things done through people is what they do. By saying that management is a function, not a type of person or role, we can better account for self-managed work teams where no one is in charge. In a self-managed team, **management** is a group effort with no one being the designated manager. (McCrimmon, 2007)

1.2. *Management Approaches*

In general terms, there are two **approaches** to **management**:

- *The Industrial Organization Approach*: This approach is based on economic theory which deals with issues like competitive rivalry, resource allocation, economies of scale. This approach to management assumes rationality, self-interested behavior, profit maximization.
- *The Sociological Approach*: This approach deals primarily with human interactions. It assumes rationality, satisfying behavior, profit sub-optimality. (Montana, 2008)

1.3. *Management Theories*

Management theories can also be divided into two sets. One is the set that concentrates mainly on efficiency and another is the set that concentrates mainly on effectiveness."*Efficiency* is about doing things the right way. It involves eliminating waste and optimizing processes. *Effectiveness* is about doing the right things". (Drucker, 1993)

Often the moral question of "*What is effective*?" is rephrased into a question that looks at visible results "*What is efficient*?" According to Bruno Dyck and Mitchell Neubert (2008) efficiency refers to the level of output that is achieved with a given level of inputs. Put another way, *efficiency* means maximizing *outputs* (the good, services, and other resources that an organization puts into the environment) while minimizing *inputs* (the human, material, and information resources that an organization takes from the environment). A good management style is a blend of both *efficiency* and *effectiveness*. There is no point in acting efficiently if what you are doing will not have the desired effect.

1.4. *Management Techniques*

Management techniques can be viewed as either *bottom-up, top-down,* or *collaborative processes*. In India, largely the *top down* approach is popular. (Drucker, 2003)

In the *top-down approach*, the management makes the decisions, which the employees have no choice but to accept.

On the other hand, in the *bottom-up approach*, employees submit proposals to their managers who, in turn, funnel the best ideas further up the organization. However the *bottom up approach* is not a very popular approach in India as most of the Indian businesses are family run businesses.

1.5. *Evolution of Management*

1.5.1. *Seat-of-the-plants*

Before *scientific management*, organizational decision making could best be described as "*seat-of-the-pants*." Decisions were made haphazardly without any systematic study, thought, or collection of information. Customer orders were transmitted verbally from sales representatives to shop floor supervisors. They were not written down. If the "managers" hired by the company founder or owner decided that workers should work twice as fast, little or no thought was given to worker motivation. If workers resisted, "managers" often resorted to physical beatings to get workers to work faster, harder, or longer. In general, managers and workers gamed the system trying to systematically take advantage of each other. Likewise, nothing was standardized. Each worker did the same job in his or her own way with different methods and different tools. In short, there were no procedures to standardize operations, no standards to judge whether performance was good or bad, and no follow-up to determine if productivity or quality actually improved when changes were made. (Williams, 2006)

This all changed, however, with the advent of *scientific management*, which, in contrast to the unsystematic "*seat-of-pants*" approach, thoroughly studied and tested different work methods to identify the best, most efficient ways to complete a job. In contrast to "*seat-of-pants*" management, *scientific management* recommended studying and testing different work methods to identify the best, most efficient ways to complete a job. According to Frederick W. Taylor (1911), the "father of scientific management", managers should follow four scientific management principles. First, study each element of work to determine the "one best way" to do it. Second, scientifically select, train, teach, and develop workers to reach their full potential. Third, cooperate with employees to ensure implementation of the scientific principles. Fourth, divide the work and the responsibility equally between management and workers. Above all, Taylor felt these principles could be used to align managers and employees by determining a "fair day's work," what an average worker could produce at a reasonable pace, and a "fair day's pay," what management should pay workers for that effort. Taylor felt that incentives were one of the best ways to align management and employees.

1.5.2. *Bureaucracy*

Today, when we hear *bureaucracy*, we think of inefficiency and "red tape." Yet, according to German sociologist Max Weber, bureaucracy, that is, running organizations on the basis of knowledge, fairness, and logical rules and procedures, would accomplish organizational goals much more efficiently than monarchies and patriarchies, where decisions were made on the basis of personal or family connections, personal gain, and arbitrary decision making. Bureaucracies are characterized by seven elements: qualification-based hiring; merit-based promotion; chain of command; division of labor; impartial application of rules and procedures; recording rules; procedures, and decisions in writing; and separating managers from owners. Nonetheless, bureaucracies are often inefficient and can be highly resistant to change. (Elwell, 1996)

The Frenchman Henri Fayol, whose idea were shaped by his 20 plus years of experience as a CEO, is best known for developing five management functions (planning, organizing, coordinating, commanding, and controlling) and 14 principles of management (division of work, authority and responsibility, discipline, unity of command, unity of direction, subordination of individual interests to the general interest, remuneration, centralization, scalar chain, order, equity, stability of tenure of personnel, initiative, and esprit de corps). He is also known for his belief that management could and should be taught to others.

1.5.3. *Scientific management*

*Scientific management w*as focused on improving the efficiency of manufacturing facilities and their workers; *bureaucratic management* focused on using knowledge, fairness, and logical rules and procedures to increase the efficiency of the entire organization; and *administrative management* focused on how and what managers should do in their jobs. In contrast, the *human relations* approach to *management* focused on the psychological and social aspects of work. Under the human relations management approach, people were more than just extensions of machines; they were valuable organizational resources whose needs were important and whose efforts, motivation, and performance were affected by the work they did and their relationships with their bosses, coworkers, and work groups. In other words, according to *human relations management*, efficiency alone is not enough to produce organizational success. Success also depends on treating workers well. (Williams, 2008)

Unlike most people who view conflict as bad, Mary Parker Follet, the “mother of modern management,” believed that conflict could be a good thing, that is should be embraced and not avoided, and that of the three ways of dealing with conflict – domination, compromise, and integration – the latter was the best because it focuses on the developing creative methods for meeting conflicting parties’ needs. Follet also used four principles to emphasize the importance of coordination in organizations. She believed that the best overall outcomes are achieved when leaders and workers at different levels and in different parts of the organization directly coordinate their efforts to solve problems in an integrative way.

1.5.4. *Management approaches*

Other four significant *historical approaches to management* that have influenced how today's managers produce goods and services on a daily basis, gather and manage the information they need to understand their businesses and make good decisions, understand how the different parts of the company work together as a whole, and recognize when and where particular management practices are likely to work. In order to better understand these ideas in the following paragraphs will be described the concepts of *operations management*; *information management*; *systems management*; and *contingency management*.

- *Operations management* uses a quantitative or mathematical approach to find ways to increase productivity, improve quality, and manage or reduce costly inventories. The manufacture of standardized, interchangeable parts, the graphical and computerized designs of parts, and the accidental discovery of just-in-time management were some of the most important historical events in operations management. (Stevenson, 2008)

- For most of recorded history, information has been costly, difficult to obtain, and slow to spread. Consequently, throughout history, organizations have pushed for and quickly adopted new information technologies that reduce the cost or increase the speed with which they can acquire, store, retrieve, or communicate information.

- A *system* is set of interrelated elements or parts that function as a whole. Organizational systems obtain inputs from the general and specific environments. Managers and workers then use their management knowledge and manufacturing techniques to transform those inputs into outputs, such as products and services, which are then consumed by persons or organizations in the environment, which, in turn, provide feedback to the organization, allowing managers and workers to modify and improve their products or services.

Organizational systems must also address the issues of synergy, open versus, closed systems, and entropy.

- Finally, the *contingency approach* to management precisely states that there are no universal management theories. The most effective management theory or idea depends on the kinds of problems or situations that managers or organizations are facing at a particular time. This means that management is much harder than it looks and that managers need to look for key contingencies by spending more time analyzing problems and situations before they take action to fix them. (Wren, 1994)

1.6. *Kinds of Managers*

There are four different kinds of managers, each with different jobs and responsibilities: top managers, middle managers, first-line managers, and team leaders. (Williams, 2006)

1.6.1. *Top Managers*

Top manager is a high level manager working for a wage or salary. His main capacity comes to a strategic business development and general management of a company or its department. Top managers hold positions like chief executive officer (CEO), chief operating officer (COO), chief financial officer (CFO), and chief information officer (CIO), and are responsible for the overall direction of the organization. First, they are responsible for creating a contest for change. Second, top managers are responsible for developing employees' commitment to and ownership of the company's performance. Third, top managers are responsible for creating a positive organizational culture through language and action. Top managers impart company values, strategies, and lessons through what they do and say to others, both inside and outside the company. Finally, top managers are responsible for monitoring their business environments. This means that top managers must closely monitor customs needs, competitors' moves, and long-term business, economic, and social trends. (Hanberg and Taylor, 2010)

1.6.2. *Middle managers*

*Middle managers*hold positions like plant manager, regional manager, or divisional manager. The middle manager role has frequently been declared "extinct" and/or redundant in modern organizations, and reduction of staff has taken a severe toll among middle managers.

Generally, they are responsible for setting objectives consistent with top management’s goals and for planning and implementing subunit strategies for achieving those objectives. One specific middle management responsibility is to plan and allocate resources to meet objectives. Another major responsibility is to coordinate and link groups, departments, and visions within a company. A third responsibility of middle management is to monitor and manage the performance of the subunits and individual managers who report to them. Finally, middle managers are also responsible for implementing the changes or strategies generated by top managers. The new middle manager now has to attain his/her objectives through efforts of the larger organization, and in particular by working through his/her reporting managers. (Osterman, 2009)

1.6.3. *First-line managers*

*First-line managers*hold positions like office manage, shift supervisor, or department manager. The role of the first line manager is arguably one of the most important tasks in any organization or business. Gaining the commitment of front line staff, meeting the needs of customers and middle /senior managers at the same time is pivotal if the organization or business is to achieve success. The primary responsibility of first-line managers is to manage the performance of entry-level employees, who are directly responsible for producing a company’s goods and services. Thus, first-line managers are the only managers who don’t supervise other managers. First-line managers have the following responsibilities. (Williams, 2011).

First-line managers encourage, monitor, and reward the performance of their workers. They teach entry-level employees how to do their jobs. First-line managers also make detailed schedules and operating plans based on middle management's intermediate-range plans. In fact, in contrast to the long-term plans of top managers (three to five years out) and the intermediate plans of middle managers (6 to 18 months out), first-line managers engage in plans and actions which typically produce results within two weeks.

1.6.4. *Team Leaders*

The fourth kind of manager is a *team leader*. This relatively new kind of management job developed as companies shifted self-managing teams, which, by definition, have no formal supervisor. In traditional management hierarchies, first-line managers are responsible for the performance of non managerial employees and have the authority to hire and fire workers, make job assignments, and control resources. Team leaders play a very different role because in this new structure, teams now perform nearly all of the functions performed by first-line managers under traditional hierarchies. Instead of directing individuals' work, team leaders facilitate team activities toward goal accomplishment.

Team leaders fulfill the following responsibilities. First, team leaders are responsible for facilitating team performance. This doesn't mean team leaders are responsible for team performance. They aren't. The team is. Team leaders help their team members plan and schedule work, learn to solve problems, and work effectively with each other. Second, team leaders are responsible for managing external relationships. Team leaders act as the bridge or liaison between their teams and other teams, departments, and divisions in a company. Third, team leaders are responsible for internal team relationship. Getting along with others is much more important in team structures because team members can't get work done without the help of their teammates. (Schmidt, 2009)

1.7. *Managerial Roles*

Managers perform *interpersonal*, *informational*, and *decisional roles* in their jobs. (Mintzberg, 1973)

1.7.1. *Interpersonal roles*

In fulfilling the *interpersonal roles*, managers act as:

- Figureheads by performing ceremonial duties;
- Leaders by motivating and encouraging workers;
- Liaisons by dealing with people outside their units.

1.7.2. *Informational roles*

In performing their *informational role*, managers act as:

- Monitors by scanning their environment for information;
- Disseminators by sharing information with others in the company;
- Spokespeople by sharing information with people outside their departments or companies.

1.7.3. *Decisional subroles*

According to Mintzberg (1973), the time managers spend obtaining and sharing information is not an end in itself. The time spent talking to and obtaining and sharing information with people inside and outside the company is useful to managers because it helps them make good decisions. According to Mintzberg (1973), managers engage in four *decisional subroles*: entrepreneur, disturbance handler, allocator, and negotiator.

- In the *entrepreneur role*, managers adapt themselves, their subordinates, and their units to incremental change;
- By contrast, in the *disturbance handler role*, managers respond to pressures and problems so severe that they demand immediate attention and action;
- In the *resource allocator role*, managers decide who will get what resources and how many resources they will get.
- In the *negotiator role*, managers negotiate schedules, projects, goals, outcomes, resources, and employee raises.

1.8. *What Companies look for in Managers*

Broadly speaking, companies do not want one-dimensional managers. They want managers with a balance of skills. When companies look for employees who would be good managers, they look for individuals who know their stuff (technical skills), are equally comfortable working with blue-collar and white-collar employees (human skills), are able to assess the complexities of today's competitive marketplace and position their companies for success (conceptual skills), and want to assume positions of leadership and power (motivation to manage). (Pfeffer, 2005)

1.8.1. *Technical skills*

Technical skills are the ability to apply the specialized procedures, techniques, and knowledge required to get the job done. Technical skills are most important for team leaders and lower-level managers because the workers who produce products or serve customers. Team leaders and first-line managers need technical knowledge and skills to train new employees and help employees solve problems. Technical knowledge and skills are also needed to troubleshoot problems that employees can't handle. Technical skills become less important as managers rise through the managerial ranks, but they are still important. (Hahn, 2007)

1.8.2. *Human skills*

Human skills can be summarized as the ability to work well with others. Managers with people skills work effectively within groups encourage others to express their thoughts and feelings, are sensitive to others' needs and viewpoints, and are good listeners. Human skills are equally important at all levels of management, from first-line supervisors to CEOs. However, because lower-level managers spend much of their time solving technical problems, upper-level managers may actually spend more time dealing directly with people. On average, first-line managers spend 57 percent of their time with people, but that percentage increases to 63 percent for middle managers and 78 percent for top managers. (Willliams, 2008)

1.8.3. *Conceptual skills*

Conceptual skills are the ability to see the organization as a whole, to understand how the different parts of the company affect each other, and to recognize how the company fits into or is affected by its external environment, such as the local community, social and economic forces, customers, and the competition. Good managers have to be able to recognize, understand, and reconcile multiple complex problems and perspectives. In other words, managers have to be smart! In fact, intelligence makes so much difference for managerial performance that managers with above-average intelligence typically outperform managers of average intelligence by approximately 48 percent. Clearly, companies need to be careful to promote smart workers into management. Conceptual skills increase in importance as managers rise through the management hierarchy. (Akrani, 2011)

1.8.4. *Motivation to manage*

Good management involves much more than intelligence, however. For example, making the department genius a manager can be disastrous if that genius lacks technical skills, human skills, or one other factor known as the motivation to manage. *Motivation to manage* is an assessment of how motivated employees are to interact with superiors, participate in competitive situations, behave assertively toward other, tell others what to do, reward good behavior and punish poor behavior, perform actions that are highly visible to others, and handle and organize administrative tasks. Managers typically have a stronger motivation to manage than their subordinates, and managers at higher levels usually have a stronger motivation to manage than managers at lower levels. Furthermore, managers with a stronger motivation to manage are promoted faster, are rated as better managers by their employees, and earn more money than managers with a weak motivation to manage. (Mondy, 2011)

1.9. ***Why Management Matters***

Why management matter? Well-managed companies are competitive because their work forces are smarter, better trained, more motivated, and more committed. Furthermore, companies that practice good management consistently have greater sales revenues, profits, and stock market performance than companies that don’t. Finally, good management matters because good management leads to satisfied employees who, in turn, provide better service to customers. Because employees tend to treat customers the same way that their managers treat them, good management can improve customer satisfaction. (Williams, 2006)

Chapter 2 – Management Functions

Management is accomplished through four functions of management: planning, organizing, leading, and controlling. (Schermerhorn, 2010)

2.1. *Planning*

According to Thomas S. Bateman and Scott Snell (1999), "**planning** is the management function of systematically making decisions about the goals and activities that an individual, a group, a work unit, or the overall organization will pursue in the future."Planning, including identifying goals, objectives, methods, resources needed to carry out methods, responsibilities and dates for completion of tasks. Examples of planning are strategic planning, business planning, project planning, staffing planning, advertising and promotions planning, etc.

On the other hand Bruno Dyck and Mitchell Neubert (2008) define **planning** as "identification of organization's goals and strategies, as well as the appropriate organizational resources required achieving those goals and implementing those strategies." The planning function draws attention to managers' hierarchical authority. It is managers who call meetings and set agendas regarding what will be discussed at those meetings. It is managers who represent their department's goals and strategies to the rest of the organization and who are often involved in planning the exchange of resources with key suppliers and customers. It is managers who coordinate the collection and analysis of data and who are ultimately held responsible for their organization's decisions, goals, and strategies.

Mintzberg's study (1992) suggested that **planning** might involve either developing strategic organizational change or merely fine-tuning the status quo. For example, Mintzberg's *entrepreneur* subrole involves proactively and voluntarily initiating, designing, or encouraging change and innovation. The manager may delegate parts of the implementation process to others but will supervise the overall process and keep the authority to make final decisions. The *negotiator* subrole often involves making incremental changes to ongoing plans and resources. In this role, a manager represents the organization in major negotiations affecting the manager's area of responsibility (e.g., negotiating a union contract, negotiating the fee that a consulting company will be paid, negotiating the prices to be paid for a new acquisition). The public face of planning is often seen in the spokesperson subrole, where the manager transmits information and decisions up and across the hierarchy, and/or to the general public.

Planning is one of the best ways to improve organizational and individual performance. It encourages people to work harder (intensified effort), to work hard for extended periods (persistence), to engage in behaviors directly related to goal accomplishment (direct behavior), and to think of better ways to do their jobs (task strategies). But most important, companies that plan have larger profits and faster growth than companies that don't plan. However, planning also has three potential pitfalls. Companies that are overly committed to their plans may be slow to adapt to changes in their environment. Planning is based on assumptions about the future, and when those assumptions are wrong, plans are likely to fail. Finally, planning can fail when planners are detached from the implementation of plans. (Williams, 2008)

There are five steps to making plan that works:

1. Set S.M.A.R.T. goals – goals that are Specific, Measurable, Attainable, Realistic, and Timely;
2. Develop commitment to the goals from the people who contribute to goal achievement. Managers can increase workers' goal commitment by encouraging worker participation in goal setting, making goal public, and getting top management to show support for workers' goal;
3. Develop action plans for goal accomplishment;
4. Track progress toward goal achievement by setting both proximal and distal goals and by providing workers with regular performance feedback;
5. Maintain flexibility. Keeping options open through options-based planning and seeking continuous improvement through learning-based planning help organizations maintain flexibility as the plan.

Proper **planning** requires that the goals at the bottom and middle of the organization support the objectives at the top of the organization. *Top management* develops strategic plans that indicate how a company will serve customers and position itself against competitors over a two-to five-year period. Strategic planning starts with the creation of an organizational vision and mission. *Middle managers* use techniques like management by objectives to develop tactical plans that direct behavior, efforts, and priorities over the next six months to two years. Finally, *lower-level managers* develop operational plans that guide daily activities in producing or delivering an organization's products and services. Operational plans typically span periods ranging from 30 days to six months. There are three kinds of operational plans: single-use plans, standing plans (policies, procedures, and rules and regulations), and budgets. (Williams, 2008)

2.2. *Organizing*

Organizing is the management function of assembling and coordinating human, financial, physical, informational, and other resources needed to achieve goals. This function consists of establishing the internal organizational structure of the organization. The focus is on division, coordination, and control of tasks and the flow of information within the organization. It is in this function that managers distribute authority to job holders.

Bruno Dyck and Mitchell Neubert (2008) define **organizing** as "ensuring that tasks have been assigned and a structure of organizational relationships created that facilitates meeting organizational goals." Organizing has to do with the structures and systems that managers establish and maintain. This includes the authority structure of the organization, the types of departments that are established, the technology that the organization uses, the physical layout of a factory or office space, budgets, human resource policies, and so on. When senior managers are asked about the most challenging part of their job, they often talk about implementing changes to organizational structures and systems.

Mintzberg's managerial roles view **organizing** as "the allocation of organizational resources." The *resource allocator* subrole is defined very broadly and involves the distribution of all types of resources (e.g., time, funds, equipment, and human resources). Managers create the organizational structure that members work within, such as what sort of departments an organization has and how budgeting processes are used to allocate financial resources.

There are five traditional departmental structures: functional, product, customer, geographic, and matrix. (Williams, 2011)

Functional departmentalization is based on the different business functions or expertise used to run a business. *Product departmentalization* is organized according to the different products or services that a company sells. *Customer departmentalization* focuses its divisions on the different kinds of customers a company has. *Geo-*

graphic departmentalization is based on the different geographic areas or markets in which the company does business. *Matrix departmentalization* is a hybrid form that combines two or more forms of departmentalization, the most common being the product and functional forms. There is no “best” departmental structure. Each structure has advantages and disadvantages.

Organizational authority is determined by the chain of command, line versus staff authority, and the degree of centralization in a company. The chain of command vertically connects every job in the company to higher levels of management and makes clear who reports to whom. Managers have line authority to command employees below the items in the chain of command, but have only staff or advisory authority over employees not below them in the chain of command. Managers delegate authority by transferring to subordinates the authority and responsibility needed to do a task; in exchange, subordinates become accountable for task completion. In centralized companies, most authority to make decisions lies with managers in the upper levels of the company. In decentralized companies, much of the authority is delegated to the workers closest to problems, who can make the decisions necessary for solving the problems themselves. Centralization works best for tasks that require standardized decision making. When standardized isn’t important, decentralization can lead to faster decisions, greater employee and customer satisfaction, and significantly better financial performances. (Robbins and Judge, 2010)

Mainstream managers emphasize four basic elements of organizational structure each of which corresponds to one of the fundamental elements identified by Weber (Dyck and Neubert, 2008):

- *Standardization*: The emphasis is one developing uniform practices for organizational members to follow in doing their jobs; this ensures that work activities are being completed in the best way to accomplish the overall work of the organization.
- *Specialization*: The emphasis is on grouping standardized organizational tasks into separate jobs; this ensures that members know which subtasks they should perform.

- *Centralization*: The emphasis is on having decision-making authority rest with managers at the top of an organization’s hierarchy; this ensures orderly deference among members.
- *Departmentalization*: The emphasis is on grouping members and resources together to achieve the work of the larger organization; this ensures that members work together harmoniously.

2.3. *Leading*

Leading is the management function that involves the manager's efforts to stimulate high performance by employees. Proper leading will influence individuals to get tasks accomplished, maintaining moral, molding company culture, and managing conflict and communication. Leading is aimed at getting the member of the organization moving in the direction that will achieve its objectives. Leading should be used as a motivating tactic to control individuals and emphasize the importance of achieving the goals set out in the planning stage. When leading, the manager must provide direction to the work group, build a climate in which individuals are motivated to perform their jobs effectively and efficiently, and communicate both operating expectations for performance and feedback on results. Leading places a premium on the manager's ability to work with people.

“**Leading** means relating to others so that their work efforts lead to the achievement of organizational goals.” (Dyck and Neubert, 2008)

Leading is often the first function that comes to mind when people think about management, because it is the most obvious and visible “face” of management for most subordinates. Managers must have the interpersonal skills necessary to ensure that members of the organization are motivated, to communicate with members, to encourage them, to resolve interpersonal conflict, and so on. Often groups will have informal leaders who may be more skilled than the formal manager at some aspects of leading.

Mintzberg (1973) found that managers spent approximately 75 percent of their time interacting with people. The *leader* subrole is the most important of the three interpersonal subroles; it includes virtually all forms of communicating with subordinates, including motivating and coaching. Most of the focus of the leader role is on face-to-face interactions, which includes activities such as staffing, training, and motivating. The *liaison* subrole includes building and maintaining a good network of information contacts beyond boundaries of a manager's specific work unit. It is evident in activities such as meeting with bosses and other managers at the same level within the organization, and dealing with competitors, suppliers, and customers. In the *disseminator* subrole, managers transmit information that was gathered either internally or externally to members of their own organizational unit. This includes sending memos, scheduling and attending weekly staff meetings, retelling the myths and anecdotes that represent an organization's culture, and relaying information from top management. (Dyck and Neubert, 2008)

Motivation is a set of forces that initiates, directs, and makes people persist in their efforts over time to accomplish a goal. Managers often confuse motivation and performance, but job performance is a multiplicative function of motivation times ability times situational constraints. If any of these components is weak, job performance will suffer. Needs are the physical or psychological requirements that must be met to ensure survival and well-being. When needs are not met, people experience an internal state of tension. But, once a particular is met, it no longer motivates. When this occurs, people become satisfied and are then motivated by other unmet needs. Different motivational theories, such as Maslow's Hierarchy of Needs (psychological, safety, belongingness, esteem, and self-actualization) (1943), Alderfer's ERG Theory (existence, relatedness, and growth) (1969), and McClelland's Learned Needs Theory (affiliation, achievement, and power) (1965), specify a number of different needs. However, studies show that there are only two general kinds of needs, lower-order needs and higher order needs, and that higher-order needs will not motivate people as long as lower-order needs remain unsatisfied. Both extrinsic and intrinsic rewards motivate people. Extrinsic rewards, which include pay, company stock, benefits, and promotions, are used to motivate people to join organizations and attend and perform their jobs. The basic model of motivation suggests that managers can motivate employees by asking them what their needs are, satisfying lower-needs first, expecting people's needs to change, and satisfying higher-order needs through intrinsic rewards.

A goal is a target, objective, or result that someone tries to accomplish. Goal-setting theory says that people will be motivated to the extent to which they accept specific, challenging goals and receive feedback that indicates their progress toward goal achievement. The basic components of goal-setting theory are goal specificity, goal difficulty, goal acceptance, and performance feedback. Goal specificity is the extent to which a goal is hard or challenging to accomplish. Goal acceptance is the extent to which people consciously understand and agree to goals. Performance feedback is information about the quality or quantity of past performance and indicates whether progress is being made toward the accomplishment of a goal. Managers can use goal-setting theory to motivate workers by assigning specific, challenging goals, making sure workers truly accept organizational goals, and providing frequent, specific, performance-related feedback.

Leadership is the process of influencing others to achieve group or organizational goals.(Yukl, 2006)

Leaders are different from managers. The primary difference is that leaders are concerned with doing the right thing, while managers are concerned with doing things right. Furthermore, managers have a short-term focus and are concerned with the status quo, with means rather than ends, and with solving others' problems. By contrast, leaders have a long-term focus and are concerned with change, with ends rather than means, and with inspiring and motivating others to solve their own problems. Organizations need both managers and leaders. But, in general, companies are over managed and underled. While leadership is important, leadership substitutes and neutralizers create situations in which isn't necessary or is unlikely to make much of a difference. Leadership substitutes are subordinate, task, or organizational characteristics that make leaders redundant or unnecessary. By contrast, leadership neutralizers are subordinate, task, or organizational characteristics that interfere with a leader's actions or make it impossible for a leader to influence followers' performance.

2.4. *Controlling*

Accordingly to Bruno Dyck and Mitchell Neubert (2008) **controlling** means "ensuring that the actions of organizational members are consistent with the organization's value and standards." Controls can be very visible, such as time clock to ensure members do not overstay their lunch hour, but the most effective controls are often less visible. These include professional norms, organizational culture, and the informal understanding employees have of "the way we do things around here" that characterize organizations. This "invisible" activity of management is important because it determines the organization's "identity", shapes the identities of individual members within the organization, and provides members with "meaning" in their jobs. For example, in some hospitals, cleaning staff may see themselves as doing menial or degrading work, whereas in other facilities, cleaning staff may see themselves as part of an overall team where each member does his or her part to care for those who are ill. Mintzberg's roles draw attention to the fact that controlling includes both correcting things that are going wrong and supporting things that are going well. In the *monitor* subrole, a manager seeks internal and external information about issues that can affect the organization. This subrole is evident in activities like talking to members, taking observational tours in the organization, and asking questions. Monitoring also includes reading newspapers and attending conferences to keep abreast of trends in the field, reading performance data, and reading minutes from meetings. The crisis *handler* subrole requires taking corrective action when things are not going as planned. Often it includes coping with unexpected difficulties (e.g., fire damage in a factory, loss of a major customer, and the breakdown of an important machine). The *figurehead* subrole highlights the important symbolic role that managers play for their organizational units. Organizational members pay special attention to their manager's behavior, taking cues from them regarding work, company values, and hands out a plaque for performance at an organizational banquet, are present at the ribbon-cutting ceremony for a new plant, or are interviewed by the media to announce a new organizational initiative. **Controlling** is a four-step process of establishing performance standards based on the firm's objectives, measuring and reporting actual performance, comparing the two, and taking corrective or preventive action as necessary.(McNicholas, 2007) *Management control* is the process by which managers influence other members of the organization to implement the organization's strategies, which are decided in the strategic planning process. These strategies are intended to achieve the goals of an organization as established by its board of directors or owners. Task control is the process of ensuring that specific tasks are carried out effectively and efficiently.

The *control process* begins by setting standards, measuring performance, and then comparing performance to the standards. The better a company's information and measurement systems, the easier it is to make these comparisons. The control process continues by identifying and analyzing performance deviations, and then developing and implementing programs for corrective action. However, control is a continuous, dynamic, cybernetic process, not a onetime achievement or result. Control requires frequent managerial attention. The three basic control methods are *feedback control* (after-the-fact performance information), *concurrent control* (simultaneous performance information), and *feed forward control* (preventive performance information). Control, however, has regulation costs and unanticipated consequences and therefore isn't always worthwhile or possible.

There are five methods of control: *bureaucratic, objective, normative, concertive, and self-control (self-management)*. (Williams, 2011)

Bureaucratic and *objective* controls are top-down, management-based, and measurement-based. *Normative* and *concertive controls* represent shared form of control because they evolve from company-wide or team-based beliefs and values. Self-control, or self-management, is a control system in which managers turn much, but not all, control over the individuals themselves.

Bureaucratic control is based on organizational policies, rules, and procedures. Objective controls are based on reliable measures of behavior or outputs. **Normative control** is based on strong corporate beliefs and careful hiring practices. **Concertive control** is based on the development of values, beliefs, and rules in autonomous work groups. **Self-control** is based on individuals' setting their own goals, monitoring themselves, and rewarding or punishing themselves with respect to goal achievement.

Deciding what to control is just as important as deciding whether to control or how to control. In most companies, performance is measured using financial measures alone. However, the balanced scorecard encourages managers to measure and control company performance from four perspectives: financial, customers, internal operations, and innovation and learning. Traditionally, financial control has been achieved through cash flow analysis, balance sheets, income statements, financial ratios, and budgets. Another way to measure and control financial performance, however, is through economic value added (EVA). Unlike traditional financial measures, EVA helps managers assess whether they are performing well enough to pay the cost of the capital needed to run the business. Instead of using customer satisfaction surveys to measure performance, companies should pay attention to customer defectors who are more likely to speak up about what the company is doing wrong. Performance of internal operations is often measured in terms of quality, which is defined in three ways: excellence, value, and conformance to expectations. Minimization of waste has become an important part of innovation and learning in companies. The four levels of waste minimization are *waste prevention* and *reduction*, *recycling* and *reuse*, *waste treatment*, and *waste disposal*. (Williams, 2011)

The first company to use new information technology to substantially lower costs or differentiate products or services often gains first-mover advantage, higher profits, and larger market share. Creating a first-mover advantage can be difficult, expensive, and risky, however. According to the resource-based view of information technology, sustainable competitive advantage occurs when information technology adds value, is different across firms, and is difficult to create or acquire.

Raw data are facts and figures. Raw data do not become information until they are in a form that can affect decisions and behavior. For information to be useful, it has to be reliable and valid (accurate), of sufficient quantity (complete), pertinent to the problems you're facing (relevant), and available when you need it (timely). Useful information does not come cheaply. The five costs of obtaining good information are the costs of acquiring, storing, retrieving, and communicating information.

Electronic data capture (bar codes, ratio frequencies identification [RFID] tags, scanners, and optical character recognition) is much faster, easier, and cheaper than manual data capture. Processing information means transforming raw data into meaningful information that can be applied to business decision making. Data mining helps managers with this transformation by discovering unknown patterns specified by managers, while unsupervised data mining looks for four general kinds of data patterns: association/affinity patterns, sequence patterns, predictive patterns, and data clusters. Protecting information ensures that data are reliably and consistently retrievable in a usable format by authorized users, but no one else. Authentication and authorization, firewalls, antivirus software for PCs and corporate email and network servers, data encryption, virtual private networks, and Web-based secure sockets layer (SSL) encryption are some of the best ways to protect information. Be careful with wireless networks, which are easily compromised even when security and encryption protocols are in place. Executive information systems, intranets, and corporate portals facilitate internal sharing and access to company information and transactions. Electronic data interchange, Web services, and the Internet allow external groups, like suppliers and customers, to easily access company information. All three decrease costs by reducing or eliminating data entry, data errors, and paperwork, and by speeding up communication. Organizations use decision support systems and expert systems to capture and share specialized knowledge with nonexpert employees.

2.5. *Organizational Structure*

According to the business dictionary **organizational structure** constitutes "framework, typically hierarchical, within which an organization arranges its lines of authority and communications, and allocates rights and duties.

Organizational structure determines the manner and extent to which roles, power, and responsibilities are delegated, controlled, and coordinated, and how information flows between levels of management.(Heizer, 2008)

A structure depends entirely on the organization's objectives and the strategy chosen to achieve them. In a centralized structure, the decision making power is concentrated in the top layer of the management and tight control is exercised over departments and divisions. In a decentralized structure, the decision making power is distributed and the departments and divisions have varying degrees of autonomy. An organizational chart illustrates the organizational structure.

Williams says that "**organizational structure** is vertical and horizontal configuration of departments, authority, and jobs within a company."

On the other hand regarding **organizational structure** Bruno Dyck and Mitchell Neubert (2008) state that it "refers to the process of developing an organizational type by ensuring that there is a fit between and among and organization's structural characteristics and its environment, strategy, and technology.

An organization process is the collection of activities that transform inputs into outputs that customers value.

Traditionally, organizational structures have been based on some form of *departmentalization*.

Departmentalization is a method of subdividing work and workers into separate organizational units that take responsibility for completing particular tasks.

There are five traditional departmental structures: functional, product, customer, geographic, and matrix.

- *Functional departmentalization* – is based one the different business functions or expertise used to run a business;
- *Product departmentalization* – is organized according to the different products or services a company sells;
- *Customer departmentalization* – focuses its divisions on the different kinds of customers a company has;
- *Geographic departmentalization* – is based on different geographic areas or markets in which the company does business;
- *Matrix departmentalization* – is a hybrid form that combines two or more forms of departmentalization, the most common being the product and functional forms.

There is no "best" departmental structure. Each structure has advantages and disadvantages.

Organizational authority is determined by the chain of command, line versus staff authority, delegating, and the degree of centralization in a company. The chain of command vertically connects every job in the company to higher levels of management and makes clear who reports to whom. Managers have line authority to command employees below them in the chain of command, but have only staff or advisory authority over employees below them in the chain of command, but have only staff or advisory authority over employees not below them in the chain of command. Managers delegate authority by transferring to subordinates the authority and responsibility needed to do a task; in exchange, subordinates become accountable for task completion. In *centralized companies*, most authority to make decisions lies with managers in the upper level of the company. In *decentralized companies*, much of the authority is delegated to the workers closest to problems, who can then make the decisions necessary for solving the problems themselves. Centralization works best for tasks that require standardized decision making. When standardization isn't important, decentralization can lead to faster decision, greater employee and customer satisfaction, and significantly better financial performance. (Vitez, 2009)

Companies use specialized jobs because they are economical and easy to learn and don't require highly paid workers. However, specialized jobs aren't motivating or particularly satisfying for employees. Companies have used *job rotation*, *job enlargement*, *job enrichment*, and the job characteristics model to make specialized jobs more interesting and motivating.

With **job rotation** Dan MacLeod (2006) states that "workers move from one specialized job to another".

"**Job enlargement** simply increases the number of different tasks in a job gives workers authority and control over their work". (MacLeod, 2006)

The goal of the job characteristics model is to make jobs intrinsically motivating. For this happen, jobs must be strong on five core job characteristics (skill variety, task identity, task significance, autonomy, and feedback), and workers must experience three critical psychological states (knowledge of results, responsibility of work outcomes, and meaningful work). If jobs aren't internally motivating, they can be redesigned by combining tasks, forming natural work units, establishing client relationship, vertical loading, and opening feedback channels.

Today, companies are using *reengineering*, *empowerment*, and *behavioral informality* to change their intra organizational process. Through fundamental rethinking and radical redesign of business process, reengineering changes an organization's orientation from vertical to horizontal. (Williams, 2011)

- **Reengineering** changes work processes by decreasing reciprocal interdependence. **Reengineering** promises dramatic increases in productivity and customer satisfaction, but it has been criticized as simply an excuse to cut costs and lay off workers.
- **Empowering** workers means taking decision-making authority and responsibility from managers and giving it to workers. Empowered workers develop feelings of competence and self-determination and believe that their work has meaning and impact.

- Workplaces characterized by **behavioral informality** are spontaneous and casual. The formality or informality of a workplace depends on four factors: language usage, conversational turn taking and topic selection, emotional and proxemics gestures, and physical and contextual cues. Casual dress policies and open office systems are two of the most popular methods for increasing behavioral informality.

Organizations are using *modular* and virtual *organizations* to change inter organizational processes. Because modular organizations outsource all noncore activities to other business, they are less expensive to run than traditional companies.

- However, **modular organizations** require extremely close relationships with suppliers, may result in a loss of control, and could create new competitors if the wrong business activities are outsourced.
- **Virtual organizations** participate in a network in which they share skills, costs, capabilities, markets, and customers. As customer problems, products, or services change, the combination of virtual organizations that work together changes. Virtual organizations can reduce costs, respond quickly, and, if they can successfully coordinate their efforts, produce outstanding products and service.

Organizational change is any substantive modification to some aspect of an organization. It may consist of a change in technology (e.g., the process used to transform inputs into outputs), structures (e.g., where the organization falls on the mechanistic-organic or closed-open continuum), people (e.g., training and skills), or mission or values change is an integral part of every manager's job. "The handwriting on the wall is clear: The world is changing, and those companies that fail to change … find themselves out of business." Managers must understand when change is needed and be able to guide their organization through it. (Dyck and Neubert, 2008)

The change process can be described as following four steps:

1. Recognize the need for change
2. Unfreeze
3. Change
4. Refreeze

Although the basic four-step change process can be seen in all types of change, the way these steps unfold and need to be managed may be influenced by the type of change:

a. Scope
b. Intentionality
c. Source.

Chapter 3 – Controlling Function

3.1. *Historical Evolution of Controlling*

The first elements of **controlling** can be spotted during the building the Egyptian pyramids where persons in charge were needed for material calculation. Considering size of the venture and, for that time, an enormously big number of workers/slaves, it was necessary that this person existed to coordinate the complete project. Considering project size and the number of years it was necessary to calculate needed number of workers, this person need to periodically check the situation of materials on stock and workers and to compare them with plans. Accordingly, new materials or workers could be added based upon calculation. For named processes, certain elements of **controlling** as known today were needed. Much later, during the 15thcentury at an English court, for the first time person a ”Controllor“ was hired. This person had the task to receive money and certain goods. During the 16th century, for persons who were in charge of similar tasks, the following term was used ”Comptroller“. The term describes a person dealing with cash flow related to the court. The word etymology comes from the French word *compte* (account). The term comptroller stays in the English court, even creating a working place like ”Comptroller General“ – the main and responsible person in the Government Accountability Office (GAO), an organization established in 1921, with the goal to insure responsibility of federal government. (Horvath, 2002)

3.2. *Defining Controlling Process*

There are several **controlling** definitions, and different authors have different opinions and definitions of controlling, but basically the idea is based upon controllers’ tasks in a company.

Jackson, in a book from 1949, states: ”The basic function of controlling is to present data from accounting in shape management and can use it as a basis for decision making“(1).

Currently the main expert in the **controlling** area, Peter Horvath (2002), defines it as, ”A management system focused on results and with tasks of coordinating planning, control, and informing“(2). An unambiguous **controlling** definition is hard to find in books. Looked at from the perspective of tasks in a controlling department, the term controlling is a common name for a set of tasks controllers in a company do. Although, it should be pointed out, it’s necessary to skip literally an understanding of controlling in a company.

According to Brech, “Controlling is a systematic exercise which is called as a process of checking actual performance against the standards or plans with a view to ensure adequate progress and also recording such experience as is gained as a contribution to possible future needs”(3).

According to Donnell, “Just as a navigator continually takes reading to ensure whether he is relative to a planned action, so should a business manager continually take reading to assure himself that his enterprise is on right course”(4).

Control is one of tasks of the controlling department but not its definition!

In one of the first companies where controlling was developed, General Electric, Ameen P. (one of the directors) for controlling states, “… adamant obligation with value-added elements for customer satisfaction, efficiency, and integrity“(5).

3.3. *Controller Tasks*

Controlling has got two basic purposes:

a) It facilitates co-ordination

b) It helps in planning

The tasks of a person in controlling are: planning, managing, and controlling if a company is on the right track to fulfill committed goals. Managing should not be understood in active meaning, but more in advising shape through which controllers indirectly realize managing. A controller role is to alert and suggest, and a manager’s role is to act according to suggestion. This concept actively includes both parties and, in process of management, cannot be done alone or independently since they are not sufficient. In the role of controlling, the controller takes management goals and elaborates them into details for departments and shapes them into time-defined tasks. Latest research also indicates the **active role of controllers positively correlates with company success.** (6)

The daily tasks of controllers are good starting points for evaluation of job automation and proposals for consideration information characteristics in controlling. Automation and information should start with the most standard, common, repetitive, tangible daily tasks that are easy to be formalized. In this case, it's desirable to analyze the daily tasks of controllers. (Osmanagic, 1998)

The controller holds regular contact with accounting and accounting IS, like ERP, with the goal to refresh data sent to boards and management. In a certain period of year, the time of operative planning of next-year's controller coordinates work of all persons that contributes to the company plan. The controller is the one to take care to translate management language into many elementary plan details. (Heizer, 2008)

Within management, information should be mentioned and make a difference between regular reporting, consuming most of the controller's time, and so-called adhoc queries mostly concentrated on details and coming from management. Ad hoc reports could also be an analysis of a smaller part of business made once, and it serves to support decisions with several alternatives.

The controller in the rest of the time significantly helps the company with finding deviations, and spotting strange facts and hidden knowledge behind information as a result of specific market trends. A controller adds value to the company. In the research of Professor N. Osamanagić Bedenik (1998) are listed the following controller tasks:

Nr.	Task	Percentage (%)
1.	Control of budget implementation and analysis of deviation	87
2.	Reporting	81
3.	Cost calculation and analysis	78
4.	Deviation analysis	68
5.	Budget preparation	65
6.	Coordination in making budget	62
7.	Integration of partial calculations into budget	62
8.	Analysis of deviation sample	60
9.	Advising in decision making process	57
10.	Business information	54
11.	Expletive help in making budget	51
12.	Cooperation in strategic planning	49
13.	Suggesting corrective measures	41
14.	Professional help in investment planning	38
15.	Electronic data processing	30
16.	Suggesting and implementing of preventive measures	24
17.	Information service for strategic planning	22
18.	Implementation of early warning alert	19
19.	Accounting and balancing	19
20.	Tasks of organizing boards	14
21.	Finance	11

Table 1

3.4. *Controlling Process*

The **control process**, whether at the input, conversion, or output stage, can be broken down into four steps: establishing standards of performance, and then measuring, comparing, and evaluating actual performance.

STEP 1: *Establish the standards of performance, goals, or targets against which performance is to be evaluated.*

At **step 1** in the control process managers decide on the standards of performance, goals, or targets that they will use in the future to evaluate perfromance of the entire organization or part of it (such as division, a function, or an individual). The standards of perfromance that managers select measure efficiency, quality, responsiveness to customers, and innovation. If managers decide to pursue a low cost strategy, for example, then they need to measure effiency at all levels in the organization.

At the *corporate level*, a standard of performance that measures efficiency is operating costs, the actual costs associated with producing goods and services, including all employee-related costs. Top managers might set a corporate goal of „reducing operating costs by 10% for the next three years" to increase efficiency. Corporate managers might then evaluate divisional managers for their ability to reduce operating costs within their respective divisions, and divisional ability to reduce operating costs within their respective divions, and divisional managers might set cost-saving targets for functional managers. Thus, perfromance standards selected at one level affect those at the other levels, and ultimately the perfromance of individual managers is evaluated in terms of their ability to reduce costs.

The number of standards or indicators of performance that an organization's managers use to evaluate efficiency, quality, and so on, can run into the thousands or hundreds of thousands. Managers at each level are responsible for selecting those standards that will best allow them to evaluate how well the part of he organization they are responsible for its performing. Managers must be careful to choose the stanadrds of perfromance that allow them to assess how well they are doing with all four of the of the building blocks of competitive advantage. If managers focus on just one (such as efficiency) and ignore others (such as determining what customers really want and innovating a new line of products to satisfy them), managers may end up hurting their organization's performance. (managementstudyguide.com)

STEP 2: *Measure actual performance.*

Once managers have decided which standards or targets they will use to evaluate performance, the next step in the control process is to measure actual performance. In practice, managers can measure or evaluate two things: (1) the actual outputs that result from the behavior of their members and (2) the *behaviors* themselves (hence the terms *output control* and *behavior control*used below). (Akrani, 2011)

Sometimes both outputs and behaviors can be easily measured. Measuring outputs or evaluating behaviour is relatively easy in a fast-food restaurant, for example, because employees are performing routine tasks. Managers of a fast-food restaurant can quite easliy measure outputs by counting how many customers their employees serve and how much money customers spend. Managers can easily observe each employee's behaviour and quickly take action to solve any problems that may arise.

When an organization and its members perform complex, nonroutine activities that are intrinsically difficult measure, it is much more difficult for managers to measure output or behavior. It is very difficult, for example for managers in charge of R&D departments at Intel or AMD, or at Microsoft or Google, to measure perfromance or to evaluate the performance of individual members because it can take several years to determine whether the new products that they engineers and scientists are developing are going to be profitable. Moreover, it is impossible for a manager to measure how creative an engineer or scientist is by watching his or her actions!

In general, the more nonroutine or complex organizational activities are, the harder ti is for managers to measure outputs or behaviors. Outputs, however, are usually easier to measure than behaviors because they are more tangible and objective. Therefore, the first kind of performance measures that managers tend to use are those that measure outputs. Then managers develop perfromance measures or standards that allow them to evaluate behaviors to determine whether employees at all levels are working toward organizational goals. Some simple behavior mesures are (1) do employees come to work on time, and (2) do employees consistently follow the established rules for greeting and serving customers? Each type of output and behavior control and the way it is used at different organizational levels-corporate, divisional, functional, and individual.

STEP 3: *Compare actual performance against chosen standards of performance.*

During **step 3** managers evaluate whether-and what extent-perfromance deviates from the standards of performance chosen in the **step 1**. If performance is higher than expected, managers might decide that they set performance standards too low and may arise them for the next time period to challenge their subordinates. Managers at Japanesse companies are well known for the way they try to raise performance in manufacturing setting by constantly raising performance standards to motivate managers and workers to find new ways to reduce costs or increase quality.

However, if performance is too low and standards were not reached, or if standards were set so high that employees could not achieve them, managers must decide whether to take corrective action. It is easy to take corrective action when the reasons for poor performance can be identified-for instance, high labor costs. To reduce costs, managers can search for low-cost foreign sources of supply, invest more in technology, or implement cross-functional teams. More often, however, the reasons for poor performance are hard to identify. Changes in the environment, such as the emergence of a new global competitor, a recession, or an increase in interest rates, might be the source of the problem. Within an organization, perhaps the R&D function underestimated the problems it would encounter in developing a new product or extra costs of doing unforeseen research. If managers are to take any form of corrective action, step 4 is necessary.

STEP 4: *Evaluate the result and initiate corrective action (that is, make changes) if the standard is not long being achieved.*

The **final step** in the **control process** is to evaluate the results and bring about changes as appropriate. Whether perfromance standards have been met or not, managers can learn a great deal during this step. If managers decide that the level of performance is unacceptable, they must try to change the way work activities are performed to solve the problem. Sometimes, performance problems occur because the work standard was too high-for example, a sales target was too optimistic and impossible to achieve. In this case, adopting more realistic standards can reduce the gap between actual performance and desired performance.

However, if managers determine that something in the siutation is causing the problem, then to raise performance they will need to change the way resources ar being utilized. Perhaps the latest technology is not being used; perhaps workerslack the advanced training needed to perform at a higher level; perhaps the organization needs to buy its inputs or assemble its products abroad to complete against low-cost rivals; perhaps it needs to restructure itself or reengineer its work processes to increase efficiency.

The simplest example of a control system is the thermostat in a home. By setting the thermostat, you establish the standard of performance with which actual temperature is to be compared. The thermostat contains a sensing or monitoring device, which measures the actual temperature against the desired temperature. Whenever there is a difference between them, the furnance or air-conditioning unit is activated to bring the temperature back to the standard. In other words, corrective action is innitiated. This is a simple control system, for it is entirely self-contained and the target (temperature) is easy to measure.

Establishing targets and designing measurement systems are much more difficult for managers because the high level of uncertainty in the organizational environment causes managers rarely known what might happen. Thus, it is vital for the managers to design control systems to allert them to problems so that they can be dealt with before they become threatening. Another issue is that mangers are not jut concerned about bringing the organization’s performance up to some predetermined standard; they want to push that standard forward, to encourage employees at all levels to find new ways to raise performance. (Rayne, 2011)

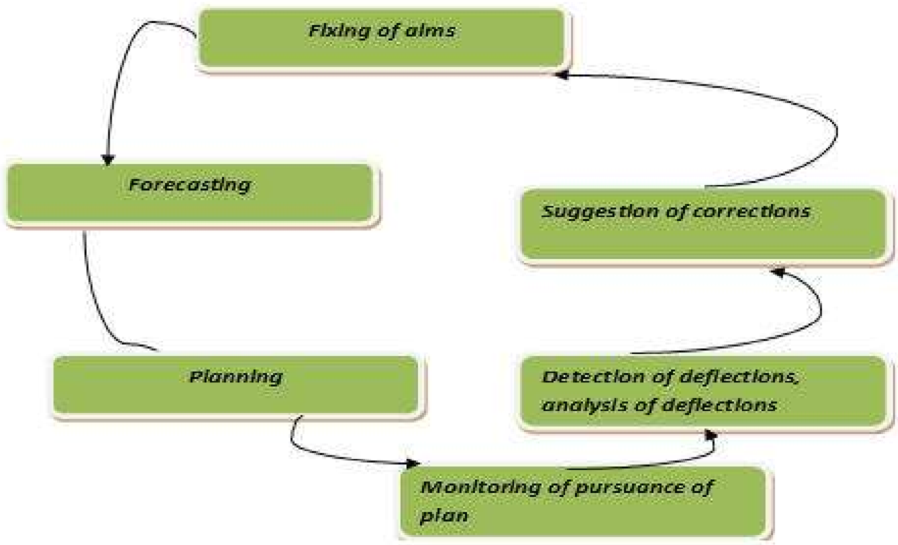

Figure 1

3.5. *Classification of Controlling Systems*

Hence, will be described three important types of control systems that managers use to coordinate and motivate employees to ensure the pursue superior efficiency, quality, innovations, and responsiveness to customers: *output control*, *behavior control*, and *clan control*. (Hirschheim, Heinzl, and Dibbern, 2009)

Managers use all three to shape, regulate and govern organizational activities, no matter what specific organizational structure is in place.

3.5.1. *Output Control*

All mangers develop a system of output control for their organizations. First, they choose the *goals* or *output performance standards* or *targets* that they think will best measure efficiency, quality, innovation, and responsiveness to customers. Then, the measure to see whether the performance goals and standards are being achieved at the corporate, divisional, functional and individual employee levels of the organization. The three main mechanisms that managers use to assess output or performance are financial measures, organizational goals, and operating budgets. (Montana, 2008)

3.5.2. *Behavior Control*

Organizational structure by itself does not provide any mechanism that motivates managers and non managerial employees to behave in ways that make the structure work or even improve the way it works – hence needed for control. Put another way, managers can develop an *organizational structure* that has the right grouping of divisions and functions, and an effective chain of command, but it will work as designed only if managers also establish control systems that motivate and shape employee behavior in ways that match this structure. *Output control* is one method of motivating employees; behavior control is another method. So, the three mechanisms of behavior control that managers can use to keep subordinates on track and make organizational structure work as they are designed to work are: *direct supervision*, *management by objectives*, and *rules and standard operating procedures*. (Montana, 2008)

A. Direct Supervision

The most immediate and potent form of behavior control is *direct supervision* by managers who actively monitor and observe the behavior of their subordinates, teach subordinates the behaviors that are appropriate and inappropriate, and intervene to take corrective action as needed. Moreover, when managers personally supervise subordinates, they lead by example and in this way can help subordinates develop and increase their own skill levels. Thus, control through personal supervision can be a very effective way of motivating employees and promoting behaviors that increase efficiency and effectiveness. (Jones and George, 2007)

B. Bureaucratic Control

When *direct supervision* is too expensive and *management by objectives* is inappropriate, managers might turn to another mechanism to shape and motivate employee behavior: bureaucratic control. *Bureaucratic control* is control by means of a comprehensive system of rules and standard operating procedures (SOPs) that shapes and regulates the behavior of divisions, functions, and individuals. As Webster's theory of bureaucracy and noted that all organizations use bureaucratic rules and procedures but some use them more than others. Recall that rules and SOPs are formal, written instructions that specify a series of actions to be taken to achieve a given end; for example, if A happens, then do B. A simple set of rules developed by the supervisor of some custodial workers (Crew

G) at a Texas A&M University building clearly established task responsibilities and clarified expectations.

Rules and SOPs guide behavior and specify what employees are to do when they confront a problem that needs a solution. It is the responsibility of a manager to develop rules that allow employees to perform their activities efficiently and effectively. Rules and SOPs also clarify people's expectations about one another and prevent misunderstandings over responsibility or the use of power. Such guidelines can prevent a supervisor from arbitrarily increasing a subordinate's workload and prevent a subordinate from ignoring tasks that are legitimate part of the job.

When employees follow the rules that managers have developed, their behavior is *standardized* – actions are performed the same way time and time again – and the outcomes of their work are predictable. And, to the degree that managers can make employees' behavior predictable, there is no need to monitor the outputs of behavior because *standardized* behavior leads to standardized outputs, such as goods and services of the same uniform quality. Suppose a worker at Toyota comes up with a way to attach exhaust pipes that reduces the number of steps in the assembly process and increases efficiency. Always on the lookout for ways to standardize and improve procedures, managers make this idea the basis of a new rule that says, "From now on, the procedure for attaching the exhaust pipe to the car is at follows." If all workers follow the rule to the letter, every car will come off the assembly line with its exhaust pipe attached in the new way and there will be no need to check exhaust pipes at the end of the line. **(**Jones and George, 2007)

In practice, mistakes and lapses of attention do happen, so *output control* is used at the end of the line, and each car's exhaust system is given a routine inspection. However, the number of quality problems with the exhaust system is minimized because the rule (bureaucratic control) is being followed. Service organizations such as retail stores, fast-food restaurants, and home-improvement stores also attempt standardize employees on the correct way to greet customers or the appropriate way to serve and bag food. Employees are trained to follow the rules that have proved to be most effective in a particular situation, and the better trained the employees are, the more standardized is their behavior and the more trust managers can have outputs (such as food quality) will be consistent. An interesting example of how creating the wrong rules can reduce performance.

C. Clan Control

One source of control increasingly being used by organizations is *clan control*, which takes advantage of the power of internalized values and norms to guide and constrain employee attitudes and behavior in ways that increase organizational performance. The first function of a control system is to shape the behavior of the organizational members to ensure they are working toward organizational goals and to take corrective action if those goals are not being met. The second function of control, however, is to keep organizational members focused on thinking about what is best for their organization in the future and to keep them looking for new opportunities to use organizational resources to create value. Accordingly to Gareth R. Jones and Jennifer M. George (2007) *clan control* serves this dual function of keeping organizational members goal-directed while open to new opportunities because it takes advantage of the power of organizational culture.

3.6. *Controlling Systems*

Organizational culture functions as a kind of **control system** because managers can deliberately try to influence the kind of values and norms that specify appropriate and inappropriate behaviors and so determine the way its members behave.

3.6.1. *Control Systems and IT*

Control systems are formal target-setting, monitoring, evaluation, and feedback systems that provide managers with information about whether the organization's strategy and structure are working efficiently and effectively. Effective **control systems** alert mangers when something is going wrong and give them time to respond to opportunities and threats. An effective **control system** has three characteristics: it is flexible enough to allow managers to respond as necessary to unexpected events; it provides accurate information and gives managers a true picture of organizational performance; and it provides managers with the information in a timely manner because making decisions on the basis of outdated information is a recipe or failure. (Sander and Schechter, 2002)

New forms of IT have revolutionized **control systems** because they facilitate the flow of accurate and timely information up and down the organization hierarchy and between functions and divisions. Today, employees at all levels of the organization routinely feed information into a company's information system or network and start the chain of events that affect decision making at some other part of the organization. This could be the department store clerk whose scanning of purchase clothing tells merchandise managers what kinds of clothing need to be reordered or the salesperson in the field who feeds into a wireless laptop the CRM information necessary to inform marketing about customers' needs or problems.

Control and **information systems** are developed to measure performance at each stage in the process of transforming inputs into finished goods and services. At the input stage, managers use *feed forward control* to anticipate problems before they arise so that problems do not occur later, during the conversion process. For example, by giving stringent product specifications to suppliers in advance (a form of performance target), an organization can control the quality of the inputs it receives from its suppliers and thus avoid potential problems during the conversion process. Also, IT can be used to keep in contact with suppliers and to monitor their progress. Similarly, by screening job applicants, often by viewing their resumes electronically, and using several interviews to select the most highly skilled people, managers can lessen the chance that they will hire people who lack the necessary skills or experience to perform effectively. In general, the development of management information systems promotes feed forward control that provides managers with timely information about changes in the task and general environments that may impact their organization later on. Effective managers always monitor trends and changes in the external environment to try anticipate problems. (Smartkpis.com)

At the *conversion stage*, concurrent control, gives managers immediate feedback on how efficiently inputs are being transformed into outputs so that mangers can correct problems as they arise. Concurrent control through IT alerts mangers to the need to react quickly to whatever is the source of the problem, be it defective batch of inputs, machine that is out of alignment, or a worker who lacks the skills necessary to perform a task efficiently. *Concurrent control* is at the heart of total quality management programs, in which workers are expected to constantly monitor the quality of the gods or services they provide at every step of the production process and inform managers as soon as they discover problems. One of the strengths of Toyota's production system, for example, is that individual workers are given the authority to push a button to stop the assembly line whenever they discover a quality problem. When all problems have been corrected, the result is a finished product that is much more reliable.

At the *output stage*, managers use feedback control to provide information about customers' reactions too goods and services so that corrective action can be taken if necessary. For example, a *feedback control system* that monitors the number of customer returns alerts managers when defective products are being produced, and a management information system (MIS) that measures increases or decreases in relative sales of different products alerts managers to changes specific products.

3.6.2. *Organizational Control and its Importance*

As previously noted, *controlling* is the process whereby managers monitor and regulate how efficiently and effectively an organization and its members are performing the activities necessary to achieve organizational goals. As it was discussed, when planning and organizing, managers develop the organizational strategy and structure that they hope will allow the organization to use resources most effectively to create value for customers. In controlling, managers monitor and evaluate whether the organization's strategy and structure are working as intended, how they could be improved, and how they might be changed if they are not working. (Jones and George, 2004)

Control, however, does not mean just reacting to events after they have occurred. It also means keeping an organization on track, anticipating events that might occur, and then changing the organization to respond to whatever opportunities or threats have been identified. Control is concerned with keeping employees motivated, focused on the important problems confronting the organization, and working together to make the changes that will help an organization improve its performance over time.

To understand the importance of *organizational control*, consider how it helps managers obtain superior efficiency; quality, responsiveness to customers, and innovation – the four building blocks of competitive advantage. (Vibrantbootcamp.com) To determine how efficiently they are using their resources, managers must be able to accurately measure how many units of inputs (raw materials, human resources, and so on) are being used to produce a unit of output. Managers also must be able to measure how many units of outputs (goods and services) are being produced. A control system contains the measure or yardsticks that allow managers to assess how efficiently the organization is producing goods and services. Moreover, if managers experiment with changing the way the organization produces goods and services to find a more efficient way of producing them, these measures tell managers how successfully they have been. For example, when managers at Ford decided to decided to adopt a product team structure to design, engineer, and manufacture new car models, they used measures such as time take to design a new car and cost savings per car produced to evaluate how well the new structure worked in comparison with the old structure. They found that the new one performed better. Without a control system in place, managers have no idea how well their organization is performing and how its performance can be improved-information that is becoming increasingly important in today's highly competitive environment.

Today, much of the competition among organizations revolves around increasing the quality of goods and services. In the car industry, for example, car within each price range compete against one another in features, design, and reliability. Thus, whether a customer will buy a Ford Five Hundred, GM Grand Prix, Chrysler Sebring, Toyota Camry or Honda Accord depends significantly on the quality of each product. Accordingly to Charles W. L. Hill and Gareth R. Jones (2009) "*organizational control is important in determining the quality of goods and services because it gives managers feedback on product quality*." If the managers of carmakers consistently measure the number of customer complaints and the number of new cars returned for repairs, or if school principals measure how many students drop out of school or how achievement scores on nationally based tests vary over time, they have a good indication of how much quality they have built into their product – be it an educated student or a car that does not break down. Effective managers create a control system that consistently monitors the quality of goods and services so that they can make continuous improvements to qualify – an approach to change that gives them a competitive advantage.

Managers can help make their organizations more responsive to customers if they develop a control system, such as a **CRM system**, that allows them to evaluate how well customer-contact employees are performing their jobs. Monitoring employee behavior can help managers find ways to increase employees' performance levels, perhaps by revealing areas in which skill training can help employees or in which new procedures can allow employees to perform their jobs better. Also, when employees know that their behaviors are being monitored, they may have more incentive to be helpful and consistent in how they act toward customers. To improve customer service, for example, Ford regularly surveys customers about their experiences with particular Ford dealers. If a dealership receives too many customer complaints, Ford's managers investigate the dealership to uncover the sources of the problems and suggest solutions; if necessary, they might even threaten to reduce the number of cars a dealer ship receives to force the dealer to improve the quality of its customer service. (Hill and Jones, 2009)

Finally, controlling can raise the level of innovation in an organization. Successful innovation takes place when managers create an organizational setting in which employees feel empowered to be creative and in which authority is decentralized to employees so that they feel free to experiment and take risks. Deciding on the *appropriate control systems* to encourage risk taking is an important management challenge; organizational culture becomes important management challenge; organizational culture becomes important in this regard. To encourage product teams at Ford to perform highly, top managers monitored the performance of each team separately – by examining how each team reduced costs or increased quality, for example – and used a bonus system related to performance to pay each team. The product team manager then evaluated each team member's individual performance, and the most innovative employees received promotions and rewards based on their superior performance.

3.6.3. *Management Control in Financial Institutions*

In financial economics, a financial institution is an institution that provides financial services for its clients or members. Probably the most important financial service provided by financial institutions is acting as financial intermediaries. Most financial institutions are highly regulated by government bodies. Financial institutions provide service as intermediaries of the capital and debt markets. They are responsible for transferring funds from investors to companies, in need of those funds.

The presence of financial institutions facilitates the flow of money through the economy. To do so, savings are pooled to mitigate the risk brought to provide funds for loans. Such is the primary means for depository institutions to develop revenue. (Sotolongo, 2001)

Thus far it has been argued that risk is an essential ingredient in the financial sector, and that some of this risk will be borne by all but the most transparent and passive institutions. In short, active risk management has a place in most financial firms. In light of this, what techniques can be used to limit and proactively manage risk? And, what are the necessary procedures to implement in order to adequately manage the risks which have been identified as the responsibility of firm management? The answers to these questions are straightforward and are the issues to which we now turn.

Accordingly to George S. Oldfield and Anthony M. Santomero (1997) *"if management is going to control risk, it must establish a set of procedures to obtain this goal"*. In the financial community this is referred to as a firm-level risk management system. Its goal is to measure and manage firm level exposure to various types of risks which management has identified as central to their franchise. For each risk category, the firm employs a four-step procedure to measure and manage firm level exposure. These steps include:

a) Standards and reports
b) Position limits or rules
c) Investment guidelines or strategies
d) Incentive contracts and compensation

In general, these tools are established to accurately define the risk, limit exposure to acceptable levels, and encourage decision makers to manage risk in a manner that is consistent with management's goals and objectives. (Saunders, 1994)

Standards and Reports

The first step of these control techniques involves two different conceptual activities, i.e., standard setting and financial reporting. They are listed together because they are the *sine qua non* of any risk management system. Underwriting standards, risk categorizations, and standards of review are all traditional tools of risk control. Consistent evaluation and rating of exposure is essential for management to understand the true embedded risks in the portfolio, and the extent to which these risks must be mitigated or absorbed. The standardization of financial reporting is the next ingredient. Obviously, outside audits, regulatory reports, and rating agency evaluations are essential for investors to gauge asset quality and firm-level risk. These reports have long been standardized, for better or worse. However, the need here goes beyond public reports and audited statements to the need for management information on asset quality and risk posture. Such internal reports need similar standardization and much more frequent reporting intervals, with daily or weekly reports substituting for the quarterly GAAP periodicity. (Santomero, 1996)

Position Limits and Rules

A second step for internal control of active management is the establishment of position limits. These are imposed to cover exposures to counterparties, credits, and overall position concentrations relative to systematic risks. In general, each person who can commit capital has a well-defined limit. This applies to traders, lenders, and portfolio managers. Summary reports to management show counterparty, credit, and capital exposure by business unit on a periodic basis. In large organizations with thousands of positions maintained and transactions done daily, accurate and timely reporting is quite difficult, but perhaps even more essential.

Investment Guidelines

Third, investment guidelines and strategies for risk taking in the immediate future are outlined in terms of commitments to particular areas of the market, the extent of asset-liability mismatching or the need to hedge against systematic risk at a particular time. Guidelines offer firm level advice as to the appropriate level of active management - given the state of the market and the willingness of senior management to absorb the risks implied by the aggregate portfolio. Such guidelines lead to hedging and asset-liability matching. In addition, securitization and syndication are rapidly growing techniques of position management open to participants looking to reduce their exposure to be in line with management's guidelines. These transactions facilitate asset financing, reduce systematic risk, and allow management to concentrate on customer needs that center more on origination and servicing requirements than funding position. (Santomero, 1995)

Incentive Schemes

To the extent that management can enter into incentive compatible contracts with line managers and make compensation related to the risks borne by these individuals, the need for elaborate and costly controls is lessened. However, such incentive contracts require accurate position valuation and proper cost and capital accounting systems. It involves substantial cost accounting analysis and risk weighting which may take years to put in place. Notwithstanding the difficulty, well designed compensation contracts align the goals of managers with other stakeholders in a most desirable way.

In fact, most financial debacles can be traced to the absence of incentive compatibility, as the case of deposit insurance illustrates. (Saunders, 1994)

In the conclusion of the theoretical part I would like mention that via all scientific literature that I managed to cover from different sources and respectively diverse authors and perspectives I had not only the possibility to investigate in depth the main concerns of the thesis and compare different points of view regarding them but this also offered me the possibility to investigate further and go ahead by applying it in my practical part of the paper.

Thus, basing on all the findings and research made in my first part I will try to apply and lay out practically in the project part some specific conclusions applying as an example the company Express Leasing. More than this, by developing some suggestions and recommendations toward some new trends I will try helping the company to improve its whole economic activity namely via a more efficient management process, specifically the controlling one.

II. ANALYSIS

Chapter 4 – Analysis of Express Leasing

As it was already mentioned in the conclusion of the theoretical part but I would like to emphasize once more the fact that application of all the theoretical aspects described will be projected hereinafter within the prism of a leasing company from Republic of Moldova.

4.1. *Evolution of Leasing on Moldavian Market*

Leasing is a financial instrument in which the property of the leased asset remains with the leasing company while the lessee obtains the right to use the asset by paying lease rentals for the life time of the leasing contract. At the maturity of the leasing contract the ownership of the leased asset is transferred to the lessee at a symbolic cost**.**A more ample defining of the *leasing* term can be achieved via two ways. First of all, it is necessary to highlight differences between the leasing operation and other ways of lease and secondly it is important to establish the limits of leasing operations and other forms of similar economic relations.

Hereinafter, it will be disclosed the first moment. As a form of lease operation, leasing is different from this by the following characteristics:

a. Lease term: usually, it is appropriate to the liquidation term of the leasing object;
b. The leasing object: usually, it is formed from the machinery, equipment, construction with the production function, different ways of transport;
c. Purchase property, proceeds from the conditions established before the lease.

In the transition period to the market economy of small and medium business, sooner or later, it is placed in dilemma the solving of complex problems - finding a funding source. In these conditions the most effective way of investment policy for the main purposes of small and medium business can serve the leasing.

Leasing opportunity in Moldova became obvious right from the beginning of the transition period to a market economy. Physical and moral depreciation of fixed assets and the *lack* of the *own funds* for modernization and *technological re-equipment* constitute some efficient premises for the extent of leasing transactions. Despite this, in recent years the development of leasing in our country was, mainly, limited. One of the main barriers which blocked the development constitutes the legacy and the controversial and contradictory regulations, which do not reflect the economic essence of leasing.

Another consequence that played negatively on the expansion of leasing services market in Moldova had the *regional financial crisis* in 1998, which threw indigenous leasing with few years back. It took nearly two years for the leasing services market from Moldova to return from this financial crisis. A *boom* in the number and volume of leasing transactions has been recorded only since 2000. It is noted with regret that the banking system in Moldova has not founded any affiliated leasing company.

The volume of leasing operations in Moldova for the years

2002 – 2006

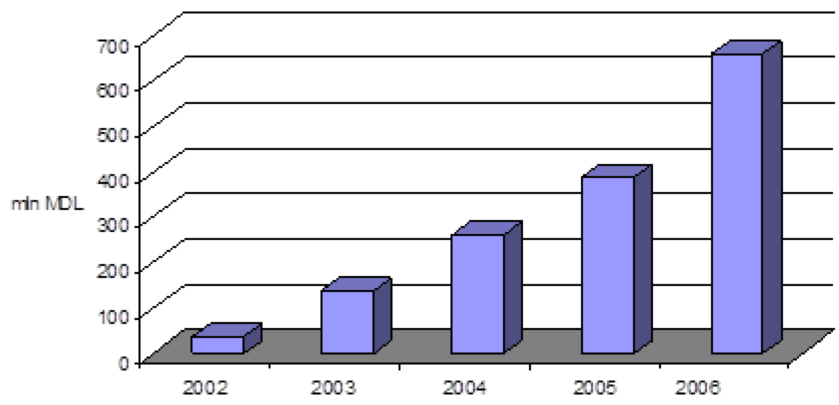

Figure 2

The *leasing market* from Moldova at the moment is situated at the stage of development; the basic segment of it represents the cars and agricultural equipment which constitute 93% of the total amount.

The number of independent leasing companies in Moldova is relatively *small*. Their main problem is the *scarcity* of *financial sources* for the activity's expansion: they operate largely with money borrowed from some commercial banks and, respectively, they are limited not only in the volume of appropriations raised, but also in the terms of loans' repayment. According to the situation from 1 January 2002 in

Moldova were registered 112 economic leasing activities, from which 75 companies were activating in the financial leasing segment.

The rapid development of this sector started in 2003 when the country's economy gave signs of returning after a crisis over 10 years. In the last 3 years leasing companies reported spectacular growth, the portfolio of leases is almost doubled every year. At the end of 2005 the leasing contracts exceed 330 million lei (about 20 million EUR). The preliminary data from leasing companies show that in 2009 growth was three times higher than in 2005.

Thus, out of more than 100 leasing companies registered in Moldova, display a rhythmic activity only about 20 of them. The four largest companies hold more than 90% of the market. Large leasing companies have the support of major banking institutions, which helps to face the rapid growth in the demand for leasing. The leader of the leasing market has around 50% of all the contracts.

Forecast of the volume of leasing operations in Moldova for the years2007 to 2011 (optimistic variant)

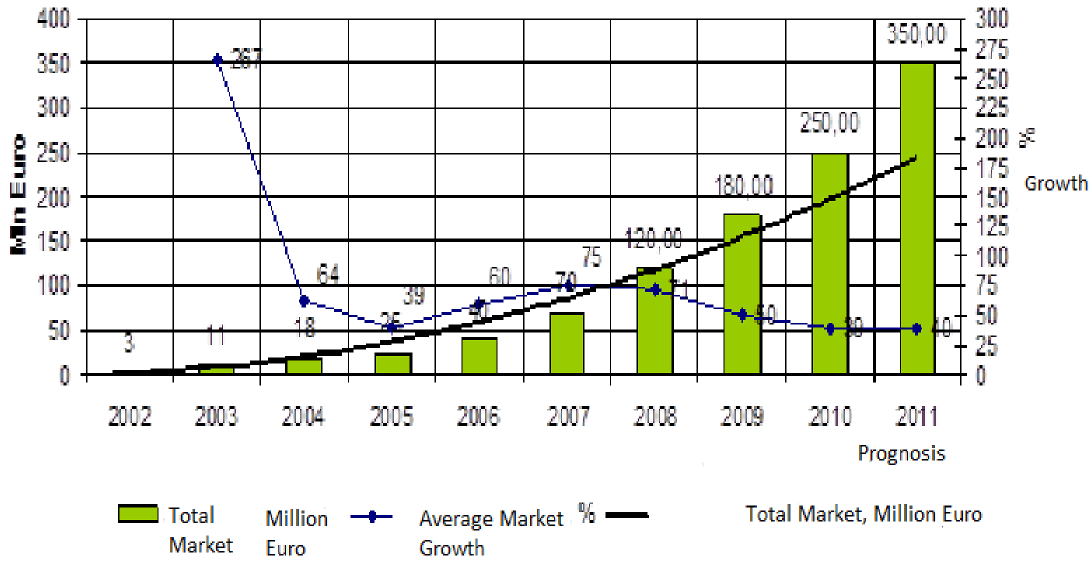

Figure 3

4.2. *History of Express Leasing*

As a result of the rebranding process the former “IM and Consulting Company Group S.A.” changed its brand name at the finishing of the year 2009 from IMC Leasing into Express Leasing. So, due to the fact that the newly launched brand Express Leasing has a very short and resumed history hence will be described the basic aspects of the IMC Leasing history.

“IM and Consulting Company Group S.A.” was registered at the State Registration Chamber of the Republic of Moldova on 29 September 1995 with the state number - the tax code 1003600068891.

It can be mentioned that at the beginning of its activity "IM and Consulting Company Group S.A." had rather a very restricted personnel while during its long activity the number of employees and number of real and potential customers significantly increased.

National leader in the leasing reports aims to:

1. Maintenance and strengthening its status;
2. Perfection of leasing offers in order to meet the needs and requirements of the potential customers;
3. Alignment with the European and international standards in leasing service and consulting;
4. Elaboration of some new leasing schemes and products by taking into consideration the local leasing market requirements;
5. Perfection and amplification of employees’ professionalism in offering high quality services to the customers.

Consulting Company Group S.A. was created in 1995. In April 2004 the company started its leasing business and became in two years of activity Moldova’s one of the leading leasing companies.

IMC Leasing was the former brand of the company and Express Leasing is the actual one.

In 2005 the total amount of lease contracts of the IMC leasing stood at EUR 9.3 million (by EUR 5.5 million more than in 2004), resulting in a net profit of EUR 234.03 thousand. The company’s net portfolio as of the end of 2006 was EUR – 151.32 thousand concluding from implementing of regulatory procedures regarding to creating for the first time by the company the provisions for losses, and fiscal approach of the income tax. The average monthly sales of 2006 were amount to EUR 1 million. For the first quarter of 2007 the net profit is EUR – 415.12 thousand.

In 2005 a foreign Company acquired 60% of company's shares, and the rest of 40% belong to two shareholders resident from Moldova. The total number of shares is 39,470,640.

As a result of the foreign investment ($2.654 million), the company's own capital increased to $ 4.423 million.

Additionally, in May 2006, the foreign investor provided to the company a subordinated loan amounting to $5 million for 5 years with a 4-years grace period on principal amount. The interest rate of the loan was 8.5%.

4.3. *Organizational Structure of Express Leasing*

Organizational Structure – constitutes another crucial factor in the company's activation as the effective organizational structure, which is met as well within Express Leasing, facilitates working relationships between various entities in the organization and improves the working efficiency within the organizational units. The structure of an organization determines the manner in which it operates and it's performance. An *effective organizational structure* will facilitate working relationships between various sections of the organization. It will retain order and command whilst promoting flexibility and creativity.

The *wrong organization structure* will hinder the success of the business. Organizational structures should aim to maximize the efficiency and success of the organization.

This factor can be considered as a basic one as only on an effective structure could be developed the other important intern aspects, which were developed above. And finally, it can be inferred that only basing on an *effective organizational structure* employees are capable to provide some high quality services and to satisfy the customers' needs and desires in order to obtain the proposed success of company.

Thus, the number of personnel from "Express Leasing" is represented by**32 highly qualified specialists**, each of them playing an essential part in the *efficient* and *qualitative* achievement of the basic objectives of the company. Being a limited liability company, the management bodies of the "Express Leasing" are: *the General*

Assembly of Shareholders, the Company Board, the Executive Body, and the Committee of Censors.

The executive body of the company "Express Leasing" ensures the current activity and has in its subdivision the following departments: *Sales Department, Department of Finance and Accounting, Risk Department, Legal Department and Portfolio management department.*

All the departments that form the executive body of the Express Leasing Company are under the control of the *General Director* and *Director of Finance*, who is placed at the same hierarchical level in the company as the General Director. The *General Director* has in his subdivisions the *Office Manager, Jurisconsult, HR Manager / Quality, Internal auditor and Sales Department*. *Director of Finance* has in his subdivision*: the Information Technology Specialist, Department of Risk, Department of Finance and Accounting Department Management Portfolio*.

"Express Leasing" puts a major emphasis on the *personnel*, which constitutes the value and power of the Company. Each employee is an indispensable member of the team. Employees are united by a common purpose and tradition oriented towards profitable cooperation on long terms. Main *objective* of the collaboration is to work *maximum effectively*, to perceive the company's interests like the own ones, and to tend towards continuous improvement. The management team from Express Leasing respects the importance and individuality of each employee, stimulate initiatives and ensure personal creativity.

"Express Leasing" is the company which performs services and the customer service and this is actually representing the main task of it. As a result of this the employees are required to provide services at an impeccable level to any customer. Mode of communication addressed when employees collaborate with customers is well described in the company's code of conduct.

The company's *aim* is not only to attract clients, but also creating conditions for *long term cooperation*, the establishment of *fair* and *honest relationships* between *company* and *client*.

The employees should behave respectfully and amiable with any visitor. Are not allowed situations where the client is bereaved of attention. In the case of some service delays, not qualitative or non-professional services the person who deserved the client will be directly responsible of it.

Communication with the customers should be respectful, tactical and concise. The voice should be calm with a warm tone and appropriate volume. Smile is preferable. The language used by the company's personnel must be fair and devoid any familiarity, jargons and dialects. Employees from “Express Leasing” should help the clients to formulate their questions more clearly, in the case when they meet some difficulties.

Employees from “Express Leasing” treat their activity and colleagues with respect and with all the consideration. The staff in its activity respects the subordination, addressing proposals, service and personal questions in a hierarchical mode, directly to the leader. It is discouraged addressing of a subaltern directly to the CEO of the Company omitting other parts of the managerial team, exempting the cases when it is specified in the Company's Code of Conduct.

In the terms of behavior and communication in the company are set out the basic principles which must respected and applied by each employee from the “Express Leasing”. Namely, the respect of these principles stayed at the foundation of a favorable climate within the company's team, free of tensions and conflicts that might seriously affect the company's image, or would cause some difficulties in achieving the goals proposed. It is present an effective way of communication both vertically and horizontally. Fairness, kindness, and loyalty in the communication lead to the rapid decisions making and solving of different problems that may occur.

Responsibility for the failure or poor performance of the set provisions, depending on the seriousness of the case, it will be applied some disciplinary sanctions, including even dismissal.Each employee receives a salary and enjoys a degree of tenure that safeguards him from the arbitrary influence of superiors or of powerful clients. The higher his position in the hierarchy, the greater his presumed expertise in adjudicating problems that may arise in the course of the work carried out at lower levels of the organization. It is bureaucratic structure that forms the basis for the appointment of heads or chiefs of administrative subdivisions in the organization and endows them with the authority attached to their position.

The *Internal Regulation* developed in order to establish the proper conduct of the company's activity and the maintenance of friendly relations of cooperation, reports clearly and deploys clearly some basic aspects, and namely:

- Are presented the principles and general provisions;
- It is presented the company's structure (organization chart);
- Are listed the main ideas, concepts and issues regarding employment;
- Are listed the rights and obligations of the company and its employees;
- Specifications on working and rest time;
- Basic ideas concerning the labor discipline - disciplinary violations and penalties imposed;
- Are listed the main aspects regarding the salary payment;
- Labor Protection.

In order to meet the market requirements or to satisfy the needs and desires of several categories of consumers, "Express Leasing" has developed a variety of leasing products, such as:

1. *Lease Plus*–is designed for those who want more from life. This offer includes:
   - ✓ Initial contribution - 20%;
   - ✓ Leasing period - up to 36 months;
   - ✓ Payment method - monthly in equal rates.

2. *Lease Max* –is proposed for those who plan their resources. This offer includes:
   - ✓ Initial contribution – 30%;
   - ✓ Leasing period – up to 60 months;
   - ✓ Payment method - monthly in equal rates.
3. *Lease Fast* – is designed for those who appreciate rapidity. This offer includes:
   - ✓ Initial contribution – 40%;
   - ✓ Leasing period – up to 36 months;
   - ✓ Payment method - monthly in equal rates.

4. *Lease Agro Plus* – is the agricultural machinery and equipment for those who value their work. Package includes:
   - ✓ Initial contribution – 30%;
   - ✓ Leasing period - up to 36 months;
   - ✓ Payment method –monthly, quarterly in equal rates.
5. *Lease Agro Max* – is the agricultural machinery and equipment for those who look to the future. The offer includes:
   - ✓ Initial contribution – 40%;
   - ✓ Leasing period – up to 60 months;
   - ✓ Payment method –monthly, quarterly in equal rates.
6. *Lease Imobil* – is represented by houses, offices – simple and rapid. The offer includes:
   - ✓ Initial contribution – 20%;
   - ✓ Leasing period – up to 60 months;
   - ✓ Payment method - monthly in equal rates.

4.4. *Economic and Financial Analysis of Express Leasing*

Realization of an economical and financial analysis can be achieved using a system of quantitative and qualitative indicators. The main source of information can serve the balance sheet, the report on some financial results, and as well some information collected directly from the company officials.

In a competitive economic system, the major objective of an enterprise is the maximization of its value and increase in the owners' wealth. This involves the performance of the company activities in the terms of high yield and at the same time maintaining the solvency and financial balance. Other objectives, such as financial flexibility, maximal growth, maintenance of power and financial autonomy represent possible alternatives, others otherwise can be opposable to the main target of maximizing the firm's value.

Thus, both the managers and owners should aim to achieve the short term objective that definitely will contribute to the achievement of the long term one – increase of the company's economic value.

The main objectives of the analysis are:

- establishing the firm's liquidity and solvency;
- determination of the net accounting value of the shareholders' wealth;
- determination of the economic and financial situation, and the detection of the possible situations of financial imbalance that could endanger the continuity of exploitation;
- characterization of the efficiency of patrimonial elements;
- evaluation of firm's performances;
- preparation of the budgets on revenues and expenditures, and of the financial plans.

In this way, in order to help managers comes the economical and financial analysis, which has the main objectives of establishing the net assets, to determine financial status and detection of possible situations of financial imbalance that could endanger the continuity of operation, establishing the company's solvency and liquidity, characterization the efficiency of economical elements, and evaluating the company's performance.

4.4.1 *Analysis of Net Assets*

Assets are anything which the firm owns or has title to (in other words ownership of). The term net then means all assets net of liabilities. Net assets are therefore:

NET ASSETS = Total Assets - Total Liabilities

The total assets are made up of fixed assets (plant, machinery and equipment) and current assets which is the total of stock, debtors and cash. The total liabilities are made up in much the same way of long-term liabilities and current liabilities. The net assets figure therefore can be used as a measure of the value of the business. It is the value of everything the business owns after all the debts have been taken account of. For companies that want to ensure their net assets is sufficient to meet their current obligations, even when business turns sour. On the other hand, net assets can also be too high. When a company avoids debt entirely – i.e., its net assets equals its total assets -- it may be foregoing profitable business opportunities that could be financed through bonds. Finally, that net assets is used in similar fashion (i.e., total assets less liabilities) to describe the net worth of a mutual fund.

The net asset is analyzed at its real value and net value:

a) The real value of net assets includes all the economic goods that have been created both from the own sources and from those borrowed (is reflected in the balance sheet as Total Assets).
b) The net value of net assets includes only those economic assets that come from some own sources. In this case, the assets represent the difference between the real value and the sum of all the liabilities.

Net asset, as economic indicator, can be used in the following cases:

- for evaluation the enterprise value in case of its sale, privatization;
- at stabilization the value of repurchasing shares;
- at establishing the share percentage by the potential shareholders.

Nr.	Indicators (lei)	2006	2007	2008	2009
1.	Total Assets	379,311,744	396,311,394	473,651,347	282,891,145
2.	Total Liabilities	332,736,894	322,716,670	384,847,389	168,580,697
3.	Net Assets=TA-TL	56,574,850	73,594,724	88,803,958	114,310,448

Table 2

According to the table presented above (2) it can be inferred that the sum of net assets has increased its value during a three-year period of time, registering a higher value each year from 2006 till 2008. The same thing we see happens in 2009, year in which the sum of net assets registers a higher value, despite the fact that total assets has almost two times decreased in comparison with 2008. This growth shows us mainly the fact that the company has streamlined all the activities developed by it.

4.4.2 *Analysis of Profitability Indicators*

A class of financial metrics that are used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time. For most of these ratios, having a higher value relative to a competitor's ratio or the same ratio from a previous period is indicative that the company is doing well. Profitability is the relative size of profits. Rate of return is a form of expression ratio between profit and assets or equity (own, permanent) or workflow (turnovers, resources consumed, etc.). Different forms of expression rates of return have varied amounts of information and mirror multiple sides of financial and economic activities of the company.

1) *Profit* – represents a financial benefit that is realized when the amount of revenue gained from a business activity exceeds the expenses, costs and taxes needed to sustain the activity. Any profit that is gained goes to the business's owners, who may or may not decide to spend it on the business. It is calculated:

Profit = Total Revenues – Total Expenses

2) *Profit Margin* (also known as Net Profit Margin) – is a ratio of profitability calculated as net income divided by revenues, or net profits divided by sales. It measures how much out of every dollar of sales a company actually keeps in earnings.

Profit margin is very useful when comparing companies in similar industries. A higher profit margin indicates a more profitable company that has better control over its costs compared to its competitors. Profit margin is displayed as a percentage; a 20% profit margin, for example, means the company has a net income of $0.20 for each dollar of sales.

- **2007 – Profit Margin** = 27,754,784 / 180,341,402 = 0.15;
- **2008 – Profit Margin** = 20,501,446 / 236,834,240 = 0.08;

- **2009 – Profit Margin** = 25,506,491 / 151,760,934 = 0.16.

3) *Return on Assets* (ROA) – represents an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as "return on investment".
   The formula for return on assets is:

$$= \frac{\text{Net Income}}{\text{Total Assets}}$$

- **2006 – Return on Assets** = (5,919,193) / 379,311,744 = (0.01)
- **2007 – Return on Assets** = 27,754,784 / 396,311,394 = 0.07;
- **2008 – Return on Assets** = 20,501,446 / 473,651,347 = 0.04;
- **2009 – Return on Assets** = 25,506,491 / 282,891,145 = 0.09.

ROA tell you what earnings were generated from invested capital (assets). ROA for public companies can vary substantially and will be highly dependent on the industry. This is why when using ROA as a comparative measure, it is best to compare it against a company's previous ROA numbers or the ROA of a similar company.

4) *Return on Equity (ROE)* – is the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

ROE is expressed as a percentage and calculated as:

$$= \frac{\text{Net Income}}{\text{Shareholder's Equity}}$$

- **2006 – Return on Equity** = (5,919,193) / 46,574,850 = (0.12);
- **2007 – Return on Equity** = 27,754,784 / 73,594,724 = 0.37;

- **2008 – Return on Equity** = 20,501,446 / 88,803,958 = 0.23;
- **2009 – Return on Equity** = 25,506,491 / 114,310,149 = 0.22.

The ROE is useful for comparing the profitability of a company to that of other firms in the same industry.

5) *Return on Investment Capital* – represents a calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments. The return on invested capital measure gives a sense of how well a company is using its money to generate returns. Comparing a company's return on capital (ROIC) with its cost of capital (WACC) reveals whether invested capital was used effectively.

The general equation for ROIC is as follows:

$$= \frac{\text{Net Income} - \text{Dividends}}{\text{Total Capital}}$$

- **2006 – Return on Investment Capital =** 1.04;
- **2007 – Return on Investment Capital =** 1.31;
- **2008 – Return on Investment Capital =** 0.22;
- **2009 – Return on Investment Capital =** 0.51.

Nr.	Description	2006	2007	2008	2009
1.	Profit		17,368,622	19,999,174	28,029,496
2.	Profit Margin		0.15	0.08	0.16
3.	ROA	(0.01)	0.07	0.04	0.09
4.	ROE	(0.12)	0.37	0.23	0.22
5.	ROIC	1.04	1.31	0.22	0.51

Table 3

Basing on the data presented in the above table (3) with the results of profitability indicators during the period of four years long of the company's activity it can, first of all, be inferred the fact that from 2007 to 2009 the company has gradually increased the profit which directly shows us a better activity of the company that leaded to some better results. A higher profit margin indicates a more profitable company that has better control over its costs compared to its competitors. So, from 2007 till 2009 we actually have the increase of the profit margin even though it is not such a big difference. The assets of the company are comprised of both debt and equity. Both of these types of financing are used to fund the operations of the company. The ROA figure gives investors an idea of how effectively the company is converting the money it has to invest into net income. The higher the ROA number, the better, because the company is earning more money on less investment. Thus, from 2006 till 2009 *Return on Assets* increased its value from a negative one of (0.01) to 0.9 which demonstrates that company is good at converting its investment into profit. *Return on Equity* constitutes as well another profitability indicator that registering a higher number illustrates a better activity of the company. And finally, Return on Investment Capital, which has a decreasing value from 2006 to 2008 demonstrates the company's inefficiency at allocating the capital under its control to profitable investments. The same thing cannot be inferred about the last when ROIC increased its value from 0.22 to 0.51 which respectively reflects the fact that the company showed an efficient allocation of the capital under its control to profitable investments. And finally, Return on Investment Capital, which has a decreasing value from 2006 to 2008 demonstrates the company's inefficiency at allocating the capital under its control to profitable investments. The same thing can not be inferred about the last when ROIC increased its value from 0.22 to 0.51 which respectively reflects the fact that the company showed an efficient allocation of the capital under its control to profitable investments.

4.4.3 *Analysis of Liquidity and Solvency*

Liquidity is:

1. The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can by easily bought or sold, are known as liquid assets.
2. The ability to convert an asset to cash quickly and is also known as "marketability".

In finance, or business *solvency* is the ability of an entity to pay its debts with available cash. Solvency can also be described as the ability of a corporation to meet its long-term fixed expenses and to accomplish long-term expansion and growth. The better a company's solvency, the better it is financially. When a company is insolvent, it means that it can no longer operate and is undergoing bankruptcy. *Solvency* is a different concept from profitability, which refers to the ability to earn a profit. Businesses can be profitable without being solvent (e.g. when they are expanding rapidly). Businesses can be solvent even while losing money (e.g. when they cannibalize future cash flows, like selling accounts receivable). A business is bankrupt when it is unprofitable and insolvent.

Liquidity ratios represent a class of financial metrics that is used to determine a company's ability to pay off its short-terms debts obligations. Generally, the higher is the value of the ratio, the larger the margin of safety that the company possesses to cover short-term debts.

Liquidity ratios provide information about a firm's ability to meet its short-term financial obligations. They are of particular interest to those extending short-term credit to the firm. Two frequently-used liquidity ratios are the *current ratio* (or *working capital ratio*) and the *quick ratio*.

In order to make an analysis of liquidity and solvency the following indicators should be calculated:

1) The Absolute Liquidity Ratio only tests short-term liquidity in terms of cash and marketable securities.

Absolute Liquidity Rate = Cash / STL;

- **2006 – Absolute Liquidity Rate =** 14,760,751 / 73,505,962 = 0.20;
- **2007 – Absolute Liquidity Rate =** 3,959,252 / 43,030,163 = 0.09;
- **2008 – Absolute Liquidity Rate =** 21,291,238 / 69,210,893 = 0.30;
- **2009 – Absolute Liquidity Rate =** 10,814,533 / 5,344,525 = 2.02.

2) Intermediate Liquidity Rate is a more realistic indicator as this indicator is safer than general liquidity ratio, although nobody can guarantee that certain clients or borrowers will pay at the maturity in order to form the liquidity provided by the Company.

Intermediate Liquidity Rate = (Cash + Short Term Investments + Receivables) / STL;

- **2006 – Intermediate Liquidity Rate =**(14,760,751+17,025,335) / 73,505,962 = 0.43;
- **2007 – Intermediate Liquidity Rate =** (3,959,252+42,378,270) / 43,030,163 = 1.07;
- **2008 – Intermediate Liquidity Rate=**(21,291,238+3,178,904+11,236,236) / 69,210,893 = 0.51;
- **2009 – Intermediate Liquidity Rate =** (10,814,533+1,452,675+23,937,128) / 5,344,525 = 6.77.

Asset Liquidity Rate = STA / STL;

- **2006 – Asset Liquidity Rate =** 17,025,335 / 73,505,962 = 0.23
- **2007 – Asset Liquidity Rate =** 42,378,270 / 43,030,163 = 0.98;
- **2008 – Asset Liquidity Rate =** 14,415,140 / 69,210,893 = 0.20;
- **2009 – Asset Liquidity Rate =** 25,389,803 / 5,344,525 = 4.75.

Asset Solvency Rate =Own Capital / (Own Capital + Total Credits);

- **2006 – Asset Solvency Rate =** 0.07;
- **2007 – Asset Solvency Rate =** 0.47;
- **2008 – Asset Solvency Rate =** 0.34;
- **2009 – Asset Solvency Rate =** 0.71.

General Solvency Rate is one of many ratios used to measure a company's ability to meet long-term obligations. The solvency ratio measures the size of a company's after-tax income, excluding non-cash depreciation expenses, as compared to the firm's total debt obligations. It provides a measurement of how likely a company will be to continue meeting its debt obligations.

General Solvency Rate = TA / TL

- **2006 – General Solvency Rate =** 379,311,744 / 332,736,894 =1.13;
- **2007 – General Solvency Rate =** 396,311,394 /322,716,670 = 1.22;
- **2008 – General Solvency Rate =** 473,651,347 / 384,847,389 = 1.23;

Nr.	Indicators	2006	2007	2008	2009
1.	Absolute liquidity rate	0.20	0.09	0.30	2.02
2.	Intermediate Liquidity Rate	0.43	1.07	0.51	6.77
3.	Asset Liquidity Rate	0.23	0.98	0.20	4.75
4.	Asset Solvency Rate	0.07	0.47	0.34	0.71
5.	General Solvency Rate	1.13	1.22	1.23	1.67

Table 4

On the basis of the results presented in the above figure can be observed that the value of the *Absolute Liquidity Rate* in 2006 is at the limit of theoretical value admissible (>0.2). From 2007 to 2008 we register some values of this indicator that are above the theoretical value admissible and this signifies the company's capacity of payment the short term liabilities from the company's cash. *Intermediate Liquidity Rate* is comprised in the admissible theoretical value (>0.7) within the first two years analyzed. The same thing cannot be inferred about the third year when this indicator registered a value under the value admissible, which shows us that the company is not able to pay all its short term liabilities and claims. One the other hand, registering in 2009 the value of 6.77 of this indicator shows that the company can not pay its short term liabilities from its own sources, securities, or receivables. *Asset Liquidity Rate* within the entire period of time is not comprised in the minimum theoretical admissible limits (1-2) and has a negative dynamic. This is due to the result of an irrational structure of the company's assets and that is why the negative dynamic of this indicator cannot be appreciated negatively for the enterprise. Not the same thing happens in the case of the *Asset Solvency Rate* where this indicator is comprised in the theoretical value admissible (0.3-0.5). If the value of this indicator is higher than 0.5 then the company’s situation can be considered to be normal. The *General Solvency Rate* has a negative dynamic but anyway despite this the indicator has theoretical value admissible that should be higher than 1. This shows that the company is solvent and has a stable financial situation.

Chapter 5 - Reflection of Controlling Function within Express Leasing

Analytical part of the thesis is conducted by the reflection of controlling function within Express Leasing displaying the current types of control applied by the company's management as well as by description of controlling process in the entire management cycle from the company and its functionality. So, in the presented below subchapters is presented the analysis of current situation in Express Leasing in terms of controlling processes.

5.1. Controlling Function in the Management Process of Express Leasing

Controlling function is a component part of the entire management process having even a more high level of importance than other functions of the management (planning, organizing, and leading).

This is mainly because of the fact that all the businesses have some:

- well defined objectives;
- a business strategy;
- certain amount of resources, such as, human and financial resources;

And all the presented above factors are entirely *controlled* by the most important one which is obviously time, reflected via the deadlines of objectives primarily set up and reached.

Thus, it can be concluded the fact that that controlling function is absolutely an indispensable function for each of the management functions.

Despite the fact that the fact that planning process basically involves establishing of some certain future goals that should be attained normally in a defined period of time control plays a crucial role as every step reached within the planning process implies a rigorous control.

For example, *let's assume the situation in which we have established to obtain a net profit of MDL 500,000 (approximately EUR 30,000), with a contribution of MDL 1.5 million (EUR 90,000) within a period of one year long.*

So, in the presented above situation the planning process will contain a periodical control over the previously established objectives: deadline, amount of the net profit, and available capital. Any planning process comprises operational and financial scenarios that serve as tools for attaining the pre established goals at each controlling phase. Controlling process can be considered as the basic sensor of the entire business activity deployed by the management of any company.

Organizing is assembling and coordinating human, financial, physical, informational, and other resources needed to achieve goals but at its turn coordination of all these available resources imply controlling of each of these elements. Organizing alike the planning function contains controlling processes and focuses on control of tasks and the flow of information within the organization.

And finally, the leading function implies controlling over employees. Leading is used as a *motivating tactic* to control individuals and emphasize the importance of achieving the goals set out in the planning stage. In fact, leadership represents a simplified control of the whole business activity.

5.2. Controlling Process within Express Leasing

Control, within any enterprise, is an important function because it helps to check the errors and to take the corrective action so that deviation from standards are minimized and stated goals of the organization are achieved in desired manner. The same thing happens in the case of Express Leasing where the control basically represents setting of standards, measuring actual performance and taking corrective actions. It can be inferred the fact that Express Leasing is a centralized organization which respectively means that in it persists a *centralization of authority*.

Centralization of authority is the location of most authority at the upper levels of the organization. In this centralized organization, managers make most decisions, even the relatively small ones. That is why the customer service representative you called could not make a decision without first asking the manager.

Among the five methods of control: bureaucratic, objective, normative, concertive, and self-control (self-management), the bureaucratic one which is based on organizational policies, rules, and procedures can be associated and persists within Express Leasing. The fact that demonstrates why Express Leasing corresponds namely to this strategy of control represents the external forces that make up the market control and as a result these external sources brought about the needed control. Thus, managerial team from Express Leasing has chosen to base on the internal bureaucratic control, which relies primarily on budgets and rules. This type of control is achieved through a system of rules and operating (SOPs) that shape the behavior of divisions, functions, and individuals. *Bureaucratic control is* control by means of a comprehensive system of rules and standard operating procedures (SOPs) that shapes and regulates the behavior of divisions, functions, and individuals. Recall that rules and SOPs are formal, written instructions that specify a series of actions to be taken to achieve a given end; for example, if *A* happens, than do *B*. The same thing happens in the case of Express Leasing where rules and SOPs guide behavior and specify what employees are to do when they confront a problem that needs a solution. It is the responsibility of a manager to develop rules that allow employees to perform their activities efficiently and effectively. Rules and SOPs also clarify people's expectations about one another and prevent misunderstandings over responsibility or the use of power. Such guidelines can prevent a supervisor from arbitrarily increasing a subordinate's workload and prevent a subordinate from ignoring tasks that are legitimate part of the job. So, in our case employees from Express Leasing follow the rules that managers have developed, their behavior is standardized – actions are performed the same way time and time again – and the outcomes of their work are predictable. And, to the degree that managers can make employees' behavior predictable, there is no need to monitor the outputs of behavior because standardized behavior because standardized behavior leads to standardized outputs, such as in our case is the quality of services provided.

- Rules and SOPs tell the worker what to do;
- Standardized actions so outcomes are predictable;
- Still need output control to correct mistakes.

The bureaucratic control is manifested in Express Leasing by all the rules, policies, hierarchy of authority, written documentation, reward systems, and other formal mechanisms in order to influence employee behavior and assess performance. Bureaucratic control is used when behavior can be controlled with market or price mechanisms.

Problems of Bureaucratic Control:

- Rules easier to make than delete;
- Firm can become too standardized and not flexible;
- Best used for routine problems.

The controlling process, which generally leads to identification of new problems that in turn need to be addressed through establishment of performance standards, and measuring performance, is represented within Express Leasing by managers in more ways. For example, the performance of employee control over work in this company reduces stress and enhances motivation and growth. Several key findings have prompted employers to search for ways to give workers a greater sense of control, to improve health, productivity and morale. It is absolutely true that over control can lead to some negative consequences but despite the fact that employees often view controlling negatively the control of the staff should be definitely be present as it may play an essential role in the company's productivity. That is why many organizations have increased employee control to make jobs better for employees, often redesigning their processes or flipping around the chain of command.

Another type of control, which I depicted in this company and which definitely is a crucial tool in achieving the company's goal, represents the control of quality. As Express Leasing is not a productive company but commercializes and offers services to the customers the quality of it is really very important as on it depends the company's results. *Quality* is a very important factor as for Express Leasing the quality of services provided represents one of the primordial goals. The offers, quality of services supplied to the clients, and efficiency made this company after only three years of activity to become one of the leading leasing companies in Moldova and that is why the maintenance of minimum the same level of quality is absolutely vital. Also, in general, the consumer may focus on the specification quality of a product/service, or how it compares to competitors in the marketplace. Thus, namely the quality of services provided can give a big advantage to Express Leasing in comparison with its main competitors.

As the *leadership* is the process of influencing others to achieve group or organizational goals in the "Express Leasing" different strategies are applied in order to motivate the personnel.

Motivation involves the basic psychological reasons for a person's actions and behavior. These are the forces or factors that cause a person to act a certain way or to behave in the manner that they do. There are various types of motivations that can influence a person. Within Express Leasing these include the following:

1. *Achievement* – this is the motivation of a person to attain goals. This type of motivation is applied within Express Leasing as the longing for achievement is inherent in every man, but not all persons look to achievement as their motivation. Thus, they are motivated by a goal. In order to attain that goal, they are willing to go as far as possible. The complexity of the goal is determined by the company's perception.
2. *Socialization* – represents another technique of motivation applied in Express Leasing as some people consider socialization to be their main motivation for actions. This is especially evident in the situation of peer pressure. Some people are willing to do anything to be treated as an equal within a group structure. The idea of being accepted among a group of people is their motivation for doing certain things.
3. *Incentive Motivation* – includes rewards and constitutes one of the basic motivations from Express Leasing. People who believe that they will receive rewards for doing something are motivated to do everything they can to reach a certain goal. While achievement motivation is focused on the goal itself, incentive motivation is driven by the fact that the goal will give people benefits. Incentive motivation is used in Express Leasing through bonuses and other types of compensation for additional work.
4. *Competence Motivation* – is another important way of motivation applied in Express Leasing because in such way the manager drives an employee to be good at something, allowing the individual to perform high quality work. Competence motivated people seek job mastery, take pride in developing and using their problem-solving skills and strive to be creative when confronted with obstacles. Also, another advantage of this technique of motivation, by giving a search to a worker which helps him/her to increase in the importance, is that via this work the employees learn from their experience.
5. *Attitude Motivation* – constitutes somehow a result of the *competence motivation* as it is the drive to influence people and change situations. Power

motivated people wish to create an impact on their organization and are willing to take risks to do so. Thus, it can be inferred the fact that once the manager from Express Leasing charged a worker with a certain responsibility and he/she fulfilled it successfully this automatically gives him/her more power and trust in his/her own person, which definitely may have an important impact on the company's welfare.

Hereinafter, I will mainly try to touch the most crucial aspects of the controlling process manifested within Express Leasing. Parts which are the most important in Express Leasing and are actually directly correlated to the controlling management function are *quantity of services, quality of services, and payment delays*.

5.2.1. *Quantity*

By *quantity* it is basically expressed the number of contracts signed. Despite the fact that at the beginning of the project I have mentioned that welfare of a company is not measured by the number of contracts signed but the prospective ones though in short run in the case of Express Leasing basing namely on the results of this coefficient is mostly evaluated not only the economic activity of the company but also the quality of services provided to customers that is managed particularly by the professionalism of the personnel.

Each employee from the sales department has a specific number of deals that he or she must accomplish within a certain period of time, pre-established in advance with the commercial director. It is really very important as well to mention here the customer relationships workers are developing with their clients as only by building some strong and long lasting connections they will be able to reach the proposed goal.

Not least important fact that must be taken into consideration represents also the *range of services* the company is running to the customers. As the number, type and conditions of leasing products the company offering to the market is wider as larger the range and number of potential customers will be.

So, presently, 97.2% of company's portfolio belongs to leasing of cars and vehicles. The company provides to clients a variety of leasing products for 3 to 5 years, with 10%-20% initial advance and 15% interest rate. Currently, 40% of the portfolio is natural persons and 60% is corporate entities.

IMC Sales Structure as of

December 31, 2008

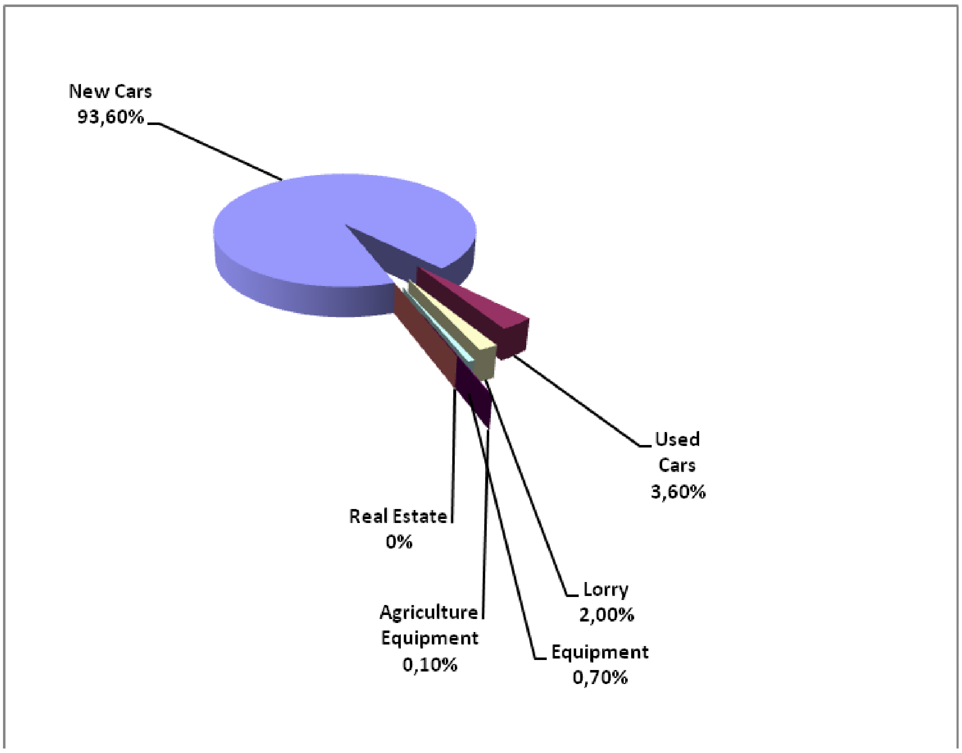

Figure 4

Express Leasing occupies an important place in the leasing market, where it is situated among the top three leaders. Even if the share with biggest percentage in the company is constituted by the cars the company during its activity has expanded the range of services offering also at the moment industrial machinery, and offering to customers the future possibility of buying property, as well, through leasing.

The company has a basic policy of attaining growth and maximizing corporate value through expanding and developing core leasing business (lease of cars and vehicles) and diversifying efforts regarding other leasing products (equipment and agricultural machinery) ahead of changes in the economic environment and client's needs.

Express Leasing Portfolio Forecast,

million EUR

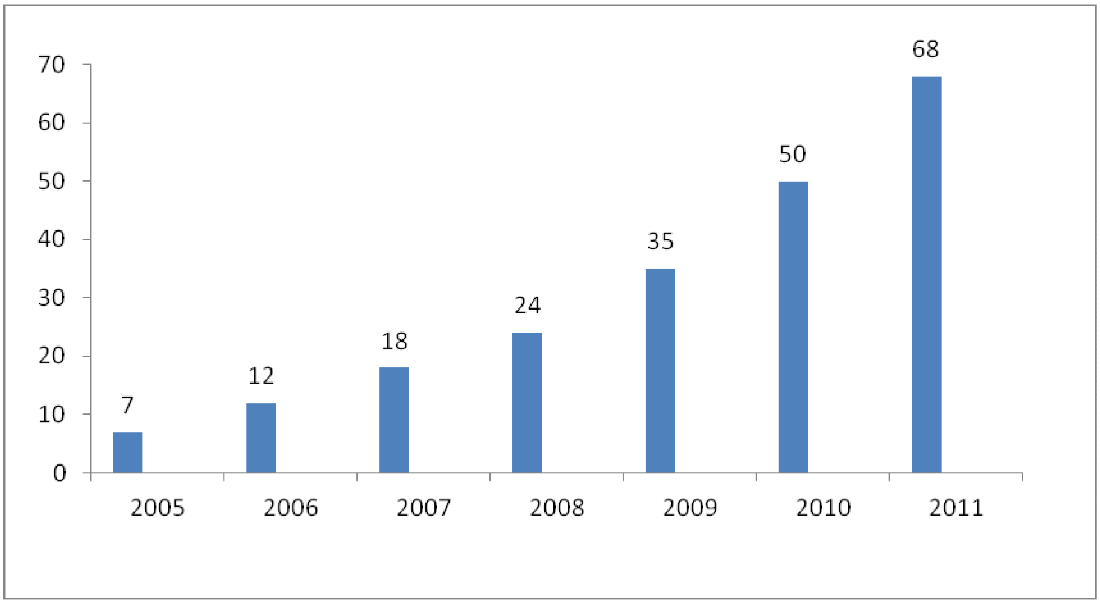

Figure 5

Total Assets and Assets Forecast,

million EUR

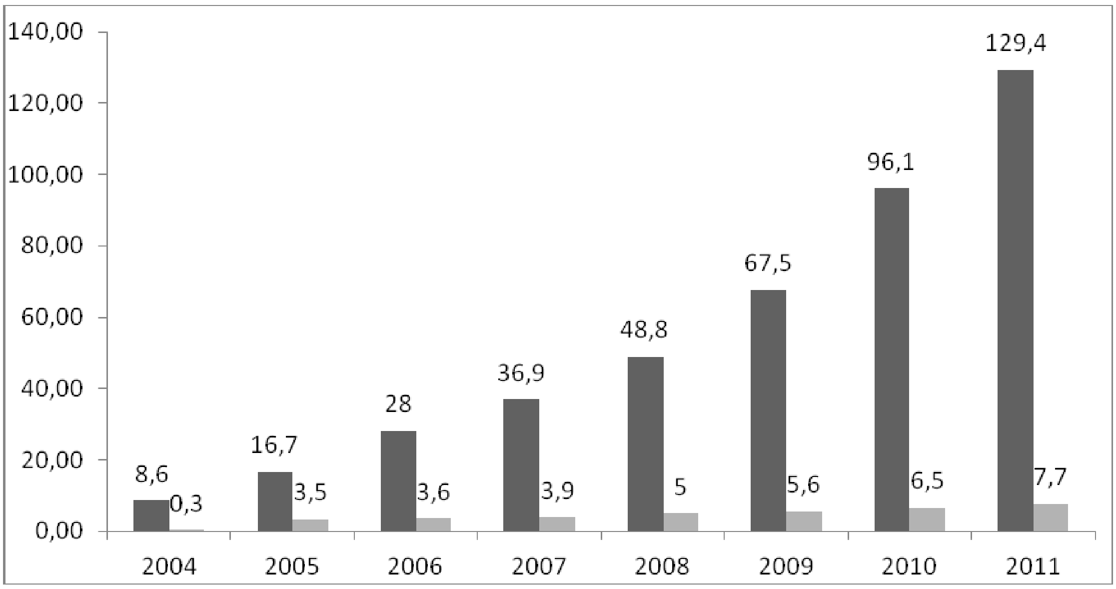

Figure 6

Making a short overview by comparing current situation presented by the financial analysis conducted in the third chapter we can observe the tremendous difference between the indicators of goals the company forecasted, represented in the above graphs, and what the company has achieved in real. So, for instance we can see from previous information that in 2009 the company's revenues constituted approximately much less that EUR 10 million but it was forecasted to achieve around EUR 35 million. The same situation the company faces with other financial indicators like in the case of total assets which touched only half of the forecasted value; fact which demonstrates us existence or appearance in time of some deficiencies the company has in reaching some better financial results again reflected via the number of new clients.

5.2.2. *Quality*

Despite the *quantity* and *range* of *services* provided another significantly important issue that I would like to investigate within the controlling process of Express Leasing constitutes the *quality of services provided*.

As Express Leasing is not a production company but its main activity is mostly based on providing leasing services *quality* represents one of the most crucial parts within the controlling process even in the whole management process from the company as it was previously mentioned high quality of services provided to customers stays at the basis of the company's policy and the company's management team strongly accentuates specifically this aspect.

At the basis of high level of qualities provided definitely is played by the employees who basically constitute the main key in meeting and satisfying and even overcoming the customers' needs and expectations. That's why conduction of control toward the quality of services provided by the employees plays a significant role for the company as it was already stated and I can highlight this mutual cycle wide range and high quality of services provided brings more potential clients and this automatically leads to better economic results.

And respectively another important indicator how the quality of services is evaluated within the company definitely represents the *number of complains* registered from the customers, both existing and prospective ones. For each complain as well as negative feedback received the company's team meticulously investigates the circumstances for identifying circumstances and exclusion of similar situations in future.

5.2.3. *Payment Delays*

As it was already stated the main activity of Express Leasing is meeting and satisfying customers' needs by offering them wide variety of services at a very high and professional level; this in order to enlarge and diversify continuously number of customers and identify new targets.

But a big challenge that the company faces with the existing customers and possibly with the future ones are the number of *payment delays* for the leasing services provided to them. Controlling, specifically over this aspect, is extremely important within Express Leasing as mainly on the frequency and accurateness of clients' monthly payment depends again the economic activity of the company.

Jurisconsult represents the company's department that is dealing specifically with the customers' monthly payments, delays of payments and even in the circumstances when the company is obliged to confiscate the good leased from the client due to several delays held continuously over a period of time or even worse not paying at all. More than this, jurisconsult is assisting and defending the company's interests within different courts cases that may interfere between the company and its clients.

5.2.4. *Shortage of Present System*

SWOT Analysis is a strategic planning method used to evaluate the strengths, weaknesses, opportunities, and threats involved in a project or in a business venture.

Consequently, for displaying the entire picture of the current situation within Express Leasing, emphasizing specifically the controlling function, I decided to choose *SWOT analysis* for identifying company's actual deficiencies that probably may be an impediment for the company's incapacity to achieve the established goals in the planning phase of the management process. In this way I will be able to depict the shortage of the present system and accordingly by developing some new specific strategies and recommendations to help the company to improve those deficient areas.

In order to make a *SWOT analysis* of the activity from Express Leasing and to draft some conclusions for the improvement of controlling functioning in the company, first of all, should be identified the main factors that do influence the company’s activity from specific perspectives. Also, by fulfilling the SWOT Analysis it will be able to conclude whether and at what level the company is achieving the goals proposed.

Strengths	**Weaknesses**
+ high levels of growth + high demand + relatively low risk industry + relatively low default rate	- secondary market still undeveloped - limited range of products - dependent on the overall economic environment - insufficient regulation
Opportunities	**Threats**
+ banks cannot perform leasing operations + alternative distribution channel for funds + under –financed real-estate + lack of funds at the existing players	- declining margins - declining down payments - increasing tenures (over 3 years)

So, accordingly to the above overall analysis of the company’s current situation in my last chapter of the thesis I will formulate the project part of the paper that will include formulation of some specific measures in terms of controlling quantity, quality, and payment delays the company’s management must undertake in order to enhance the present condition of the whole management process.

Chapter 6 – Improving Controlling Function within Express Leasing

6.1. Improving Quantity Controlling

Enhancing the operating profitability – this means that it is compulsory to act quickly and aggressively with enthusiasm and confidence. The boosting of the operating profitability, along with expanding a stable business base, is to be attained by setting and standardizing priority target leasing products, concentrating on strategic business fields in order to promote differentiation from main competitors, improving business performance via closer alliances with dealer/suppliers of cars and equipment, insurance companies and financial institutions.

Strengthening the financial structure

Firstly, this is to be accomplished by attraction of direct funding from international financial institutions such as European Fund for Southeast Europe (EFSE), EBRD and IFC, thus reducing the cost of financing and increasing the length of leasing products. To do so the company is prepared for an international financial audit and it is working on obtaining higher credit ratings.

Secondly, it can achieved by the development of sub-leasing based on direct relations with foreign leasing companies of car producers and equipment manufactures.

Development of new Leasing products

The leasing industry in Moldova is growing very quickly both in terms of volume of transaction and in terms of variety of applied financing schemes. The diversification of the company's portfolio will allow mitigating the risks related to certain industries and clients. So, the medium-term strategy for the company's portfolio must include:

a) 60% - cars and vehicles;
b) 15% - agricultural equipment;
c) 15% - production and processing equipment;
d) 10% - real estate

Portfolio Diversification Strategy

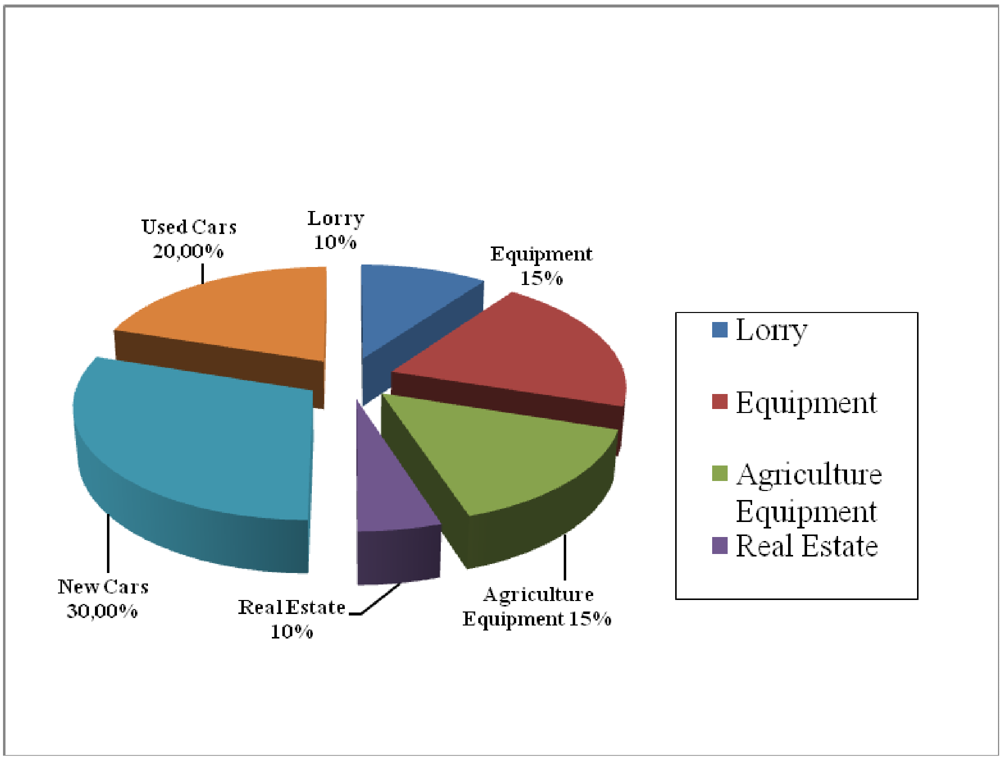

Figure 7

Therefore, in the presented above chart are displayed the main segments the company must concentrate its attention at the moment in order to diversify its portfolio of services provided. The company must enhance considerably the choice of services provided in terms of real estate especially in nowadays time of financial instability. Of a very big importance is as well the agricultural equipment which the company must improve now as due to the fact Moldova's economy is based mainly on agriculture offering a diversified spectrum of offers for the agricultural equipment would definitely have an extremely positive impact on the company's welfare especially when the number of other competing companies providing this kind of service is very limited. So, Express Leasing must go ahead with something new on the market by providing some innovative and differentiated services.

Competitors – represent a direct that influences the activity of Express within the local market. The importance of this factor can be demonstrated by the fact that drawing a competitor analysis is an assessment of the strengths and weaknesses of current and potential competitors. This analysis provides both an offensive and defensive strategic context through which to identify opportunities and threats. Another issue which shows the significance of this indicator is that knowing who your competitors are, and what they are offering, can help you to make your products, services and marketing stand out. It will enable you to set your prices competitively and help you to respond to rival marketing campaigns with your own initiatives. You can use this knowledge to create marketing strategies that take advantage of your competitors' weaknesses, and improve your own business performance. You can also assess any threats posed by both new entrants to your market and current competitors. This knowledge will help you to be realistic about how successful you can be. This guide explains how to analyze who your competitors are, how to research what they're doing and how to act on the information you gain. The main competitors of Express Leasing are: Total Leasing and Raiffaisen Leasing.

Clients – constitute an external direct factor that may influence the company's activity but which actually should be held under the company's attention and control. The clients represent a very important factor as it is one of the factors on which directly is based the company's activity, profits. A circle which is already consisted of a considerable number of permanent clients may be a strong point for the company and a big advantage in comparison with its competitors. Among the Express Leasing clients, beside the physical persons, are listed as well some legal persons and local well-known companies, like: "Glorinal", "Purcari", "DAAC Hermes", "Bostavan", S.A. "Micăuți" and many others.

6.2. Improving Quality Controlling

Quality – is a crucial factor as for Express Leasing the quality of services provided represents one of the primordial goals. The offers, quality of services supplied to the clients, and efficiency made this company after only three years of activity to become one of the leading leasing companies in Moldova and that is why the maintenance of minimum the same level of quality is absolutely vital. Also, in general, the consumer may focus on the specification quality of a product/service, or how it compares to competitors in the marketplace. Thus, namely the quality of services provided can give a big advantage to Express Leasing in comparison with its main competitors.

Though, the company's control over the quality of services provided plays an important role at the moment controlling over the employees' performance must be taken into consideration under a more accentuated angle. Here I mean that you are requiring from your staff delivery of some qualitative services to your customers but at the same you shouldn't omit the fact, which actually I saw as a big lack in the company, that you must prepare properly you personnel in order to have some well trained employees from whom you may require respectively professional run of services.

Thus, my recommendation regarding this issue to the management team of the company is first of all to develop a new vision for the company's staff which would say "*We create value through the art of serving the customer*".

But in order to cultivate this culture within the employees the company must apply from my point of view a type of controlling that would include:

- *Positive psychology* which by being implemented within Express Leasing would create a more enjoyable and productive environment.
- *Positive leadership* will promote within the company's staff the idea that every person has the potential to be a positive force in the workplace.

The Company's Objectives – constitutes another factor that has a considerable impact on the company's activity as identifying strategic objectives allows the company to address its strengths and weaknesses, improve competitive advantage, and improve customer relationships. On the other hand, organizations not understanding the importance of identifying objectives will cause missed opportunities, loss of consumer confidence, and decreased market share. Even if meeting strategy and organizational goals is difficult for management to comprehend, as factors constantly affect operations, competitive factors, and overall cost effectiveness in an organization Express Leasing needs to understand its strengths, weaknesses, opportunities, and threats (SWOT) to move forward toward the writing and evaluation of strategic objective.

Technologic Factor – Despite the fact Express Leasing is not a productive company but a commercial one the technological factor persists and has an impact on its development. Advances in technology can have a major impact on business success - with companies that fail to keep up often going out of business. Technological change impacts socio cultural attitudes.

Strengthening the management base

This is to be reached through reinforced corporate governance, reform of the personnel management system and expenditure management system, implementation of an effective management information system and continuous development and improvement of internal procedures and guidelines. In particular, ongoing efforts will be made to revise the personnel system so that the daily activities of employees precisely reflect their job description and responsibilities. It is also planned to improve the training programs for the company's employees, especially for the new employees, and further strengthens the market capabilities.

In order to produce a more effective and quick result in the above mentioned fields, it will be useful to cooperate with business development programs such as TurnAround Management Programme and Business Advisory Services Programme financed by the EBRD. Competitiveness Enhancement and Enterprise Development Project (CEED) financed by USAID, Growing Sustainable Business (GSB) financed by Austrian Development Agency (ADA) and UNDP.

6.3. Improvement Controlling of Payment Delays System

As it was already mentioned *payment delays* represent an extremely important issue that isto be considered in terms of *controlling* for the company. Due to the fact that very frequently happens that customers are processing their monthly payments lately or even miss sometimes to pay for few months consecutively, which creates accordingly several bills to the company, this issue should be taken more seriously into consideration via an amplified controlling process.

Thus, from my point of view a better way of how the management team from the company would be able to monitor better controlling of *payment delays* is to develop a specific strategy based on introduction of some*fees* for the customers that are late to pay their monthly bills for their lease to the company. On the other hand the company may provide as well some specific bonuses to the customers that never register any payment delays by offering in exchange for their commitment some specific discounts for their next purchases, meaning a more attractive interest rate or a smaller percentage of initial contribution the potential client must do in order to process a leasing transactions.

Chapter 7 – Implementation of the New System within Express Leasing

Basing on the suggestion that I have made in the previous chapter towards controlling improvement in terms of *quantity*, *quality* and *payment delays* via this chapter I would like to describe in a more detailed version the way those recommendations can be put into application.

So, for the implementation of the new system proposed regarding controlling process will be in charge a team formed from three individuals who will be responsible for implementation of each of the aspects previously mentioned.

Preparations for implementation the new system will start in September current year though the launch and functioning of it will start only from 2013.

7.1. New System for Quantity Controlling

In terms of *quantity* as I stated in my previous chapter the most important issue for the moment is developing of some new products and services that would differentiate the company from its main competitors. More than this, the management team of the company must action very aggressively and offer some unique and very attractive offers on the leasing market that would attract respectively new potential customers.

Therefore, the person in charge for the *quantity controlling* by making a meticulous research of the market emphasizing the products and services offered by the main competitors of Express Leasing would apply:

1. New interest rate conditions depending on the term of leasing contract:
    - Credit for 6 month – 0 %;
    - Credit for 12 months – 2.5 %;
    - Credit for 24 months – 7.5 %;
    - Credit for 36 months – 12.5 %
2. Initial contribution of only 15 % for all the cars which price is less than USD 13,500.

3. Very fast and simplified way of documentation for the leasing contract conclusion as for individuals as well as to small, medium-sized and large companies.
4. Introduction of a new service called “business development” would offer the possibility to individuals as well as for small enterprises to take credits up to USD 150,000 for personal or business development purposes with some very attractive conditions:
   - Interest rate – 10.5 %;
   - Term – 72 months;
   - Decision making – 3days.
5. Possibility of obtaining credits up to USD 5,000 in less than four hours long without any pawn required:
   - Interest rate – 13.5 % to 19.9 %;
   - Term – 10 to 40 months;
   - Decision making – 5 hours.

7.2. New System for Quality Controlling

In terms of *quality* controlling suggestions that were made in the previous chapter will be put into function by the implementation of software application providing *quality customer care*. This means a web-based customer service application where customers by accessing a link posted on the company’s web site can be quickly assisted online. Likewise, via e-mail and Instant Messaging customer care staff can communicate directly with customers. Thus, this web-based customer service apps is not only about to deliver everything that customers demand but more than this to provide excellence in customer relationship management (CRM), which actually is a goal for every business. Another solution is social networking. Encourage customers to join your network of contacts so they can receive these messages along with other information you provide. Include copious links to solutions to common issues, so customers don’t have to call or write.

More than this, for every type of contact customers may have with the company’s employees they can as well access on the same customer service apps an online survey regarding how satisfied they are with the quality of services provided to them from the very beginning till the moment the leasing contract was concluded itself as well as afterwards assistance. The online questionnaire will include some basic question of how efficiently their needs were met or they would like to improve or change on at the moment.

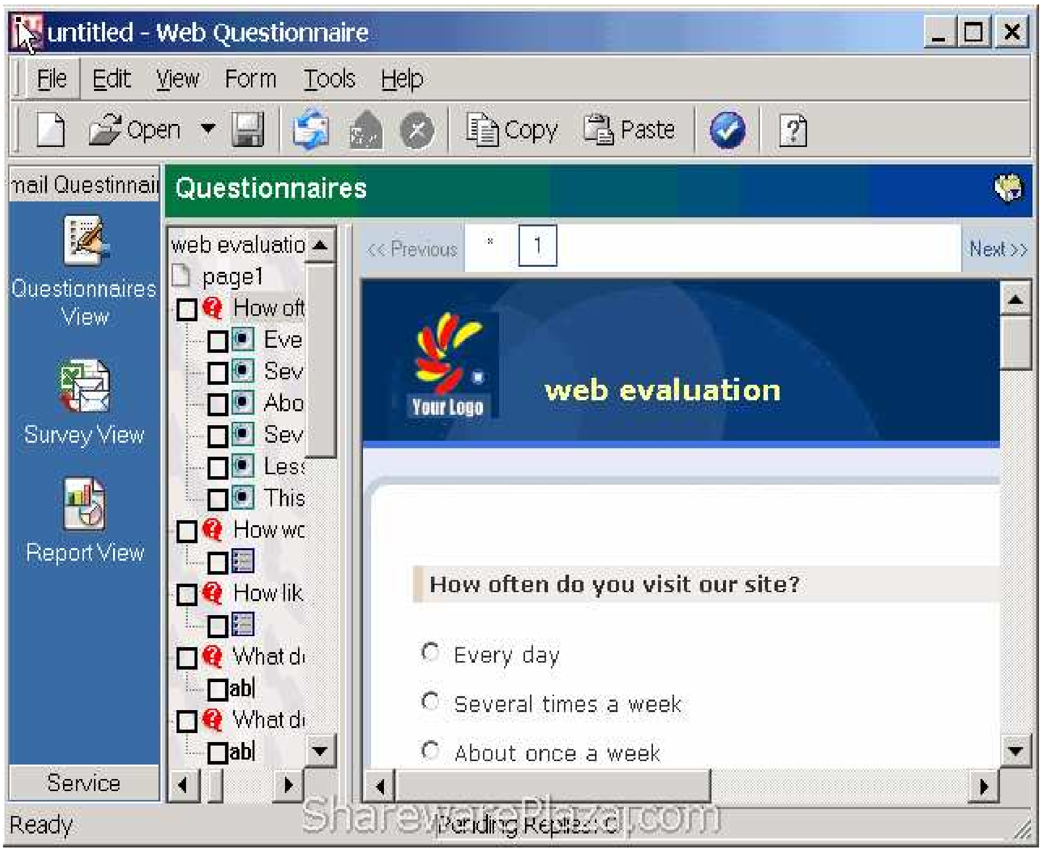

Figure 8

Therefore, all of the feedbacks received from the customers will be stored on a server after which via the process of *data mining* the company's management team will be able to depict not only the lacking areas but also to identify interests and preferences of both existing and prospective customers.

Not least important way the company will apply its new system in terms of *quality controlling* represents *staff training*. Concerning the implementation of web-based apps staff will need to know how to look up customer information, including a history of the customer's service experiences or call history. They will need to know how to look up answers to the customer's problems.

7.3. New System for Payment Delays System

In terms of payments delays as I already mentioned the company is going to apply from 2013 certain fines in the case of any payment delay registered. Person in charge for this aspect of controlling process will announce in written form regarding the company's new policy against payments delays all the customers, stating as well the amount of the fee they will have to pay by being late with their monthly bills:

- 0.1 % from the monthly payment within the first seven days of delay;
- 0.5 % from the monthly payment within the next ten business days;
- After when they payment was not within one month the fee per days constitutes the amount of 1 % from the monthly payment.

In contrast the customers that always been paying on time all the payments during the leasing contract will be rewarded with some specific discounts and would have the possibility to beneficiate from some more attractive leasing conditions like diminishing of the initial contribution to 20 % instead of paying 30 % from the cost of the good leased.

Also, for a more effective *monitoring* of the historical transaction of customers' payments delays, type, period and number of goods leased in the company will be developed a management information system should reinforce the **Credit Risk Management System** by calculating automatically the appropriate spread and limit of credit to be granted to a particular client according to the client's credit ratings and based on quantitative analysis of the assets held. The system will help the company to manage risk and to facilitate the process of making credit decisions. For transactions beyond a certain amount, the leasing committee will take individual decisions based on the results of surveys of business and industries carefully made. The system should have instruments for portfolio management in order to help the management keep the established standards and not to grant excessive credit to a particular client or industry.

Chapter 8 – Verification of the New System within Express Leasing

In my last part of verification I would like to enlist the possibility of occurrence of some specific factors or risks, both internally and externally, that may influence or even block implementation of the new system proposed.

That's why it is really empirical to analyze in advance all these risks and take them into consideration and under strict controlling while putting in function the new changes.

8.1. Verification of the New System for Quantity Controlling

The main challenge from my perspective the company may face in terms of *quantity controlling* constitutes the fact that by simplifying the process of leasing contracting and not requiring some additional documents from the potential customers the relevance provided in the documents may be doubted. In other words you just require a proof of your customer monthly income but you must be as well aware of the fact that this information may be falsified in some of the cases so controlling over the relevance of the data provided should be definitely double check at the workplace of that person as well as in some other institutions which will prove the past inexistence of some bills of your potential client.

8.2. Verification of the New System for Quality Controlling

Concerning implementation web based customer service for *quality controlling* the problem with that is you have to have a server that will store the software and people to install it. The people need to be trained and be experts at the server. This will cause you the expense of having to buy upgrades for your server and have to update the software each time the company releases a new version. This can make it hard to adapt to the needs of your customers.

Regarding the fees that the company will implement from 2012 for the payment delays the biggest risk would be the clients' incapacity to handle some extra expenses. Here we should as well highlight the *economic factor* that includes factors such as growth and performance of the national economy, interest rates, inflation, employment levels, taxation and exchange rates among other factors. There are also soft issues here to consider such as the prevailing sentiment. Economic factors affect the purchasing power of potential customers and the firm's cost of capital. The following are examples of factors in the macro economy:

- economic growth;

- interest rates;
- exchange rates;
- inflation rate.

Regarding the economic situation it can be also inferred that due to the current global economic instability and financial crisis Express Leasing met as well some certain financial difficulties and as result of this it had increased the interest rate of the products supplied in leasing by 1.5%.

8.3. Verification of the New System for Payment Delays Controlling

And last factor that does not have a direct impact on any of three main issues we are discussing but still is really very important for Moldova represents the *political factor* which as well extremely important as when weighing political factors, a company should consider the stability of the political environment, regulatory laws influenced by government policy, the government's position on marketing ethics, the government's policy on the economy, and the government's view on culture and religion. Also, the political factor can influence significantly the activity of the company as the Government by making some changes in the Legislation and adopting some new provisions may have a positive or negative way.

Political factors include government regulations and legal issues and define both formal and informal rules under which the firm must operate. Some examples include:

- Tax policy;
- employment laws;
- environmental regulations;
- trade restrictions and tariffs;
- political stability;

CONCLUSION

This project, first of all, contains some theoretical aspects regarding management and management functions, specifically about controlling function within the entire management process and especially reflection of it in Express Leasing. The paper comprises as well a general characteristic of "Express Leasing”, the company that provides leasing services on the market from Moldova.

Making a detailed study of the company’s way of organization and the internal conduct of it, as well as an analysis of the company-client relationship, I have noticed those main aspects of this company that differentiates it from other local companies and places it along with the leader companies on the leasing market from Moldova. Performances recorded by “Express Leasing” is due the seriousness and responsibility that the company staff is applying in order to achieve their obligations, attitudes and guarantees that they offer to their clients.

The company attaches a significant importance to the mode how its customers should be treated and provides also a set of benefits, such as attractive terms of financing, professional services, speed, flexibility, leasing products to individuals and legal ability to make payments at the distance, and as well the possibility of early redemption of the property to the purchaser.

It is worth to notice that from the moment when the company started its activity in 2004, the “Express Leasing” managed to triple the volume of sales becoming in this way one of the leaders in the leasing segment from Moldova. Under this aspect, in order to maintain the same rhythm of growth the company aims to implement continuously new products, through a permanent improvement and adaptation of these to the customer needs and desires in the field of activity which is promoted.

Beside all the strengths previously mentioned that the company has on the local leasing market due to the effective management process I have depicted also some deficiencies within the execution of the management functions, especially of the controlling one as in the paper namely this issue was investigated in depth. Basing on the research conducted in the last chapter, which actually plays the most important role of the entire project, were made some suggestions and brought into attention some specific methods deployed meticulously in order to improve the controlling function within the company Express Leasing.

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LIST OF ABBREVIATIONS

STA	Short term assets
STL	Short term liabilities
TA	Total assets
TL	Total liabilities

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Appendix I: Organizational Chart of Express Leasing

Appendix II: Decision Making Structure from Express Leasing

Appendix III: Balance Sheets of Express Leasing (2003 - 2009)