Scope of Management Control in Corporate Groups: Reflection on the Field of Exercise of Management Control in Relation to the Consolidation Scope

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Abstract:
The evolution of economic models, the multiplication of legal and financial vehicles used by groups of companies and the variety of possible relationships between entities of the same strategic group sometimes leaves the scope of consolidation defined according to IAS/IFRS standards and the SCF. Quite far removed from the reality of the control of resources and the power of concentration exercised by parent companies over their environment. The article aims to analyze the management control scope which goes beyond the consolidation scope. The scope of management control represents the field of exercise of management control which aims to animate the performance management system within group.
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1. INTRODUCTION

In response to significant competitive challenges and due to a high degree of uncertainty characterizing the current economic environment, many companies have indeed found themselves compelled to merge to achieve sufficient size, to implement synergies between their various activities, and to combine their investment efforts in new technologies or foreign markets in order to ensure the sustainability of their activities. These different entities often remain legally distinct while submitting to a single governing body, in order to avoid the disadvantages of the gigantism of a single company integrating diverse activities.

The presence of separate legal entities defines the concept of a group of companies, whose formation offers several advantages: risk distribution, capital diversification, easier access to financial markets, tax optimization, among others. From an economic point of view, a group consists of a set of legally autonomous entities that depend on the same decision-making center, called the parent company.

The individual financial statements of the parent company are insufficient to offer a complete economic perspective of the activity, assets, and results of the group it controls to external parties. On the other hand, consolidated accounts fill this lack of information by combining the accounts of several entities under the control of a single entity, presenting them as if they were those of a single company.

The first consolidated accounts were established in the United States, which prompted the IASB to take an interest in the organization of group accounting through the publication of specific accounting standards for consolidated accounts. The need for consolidated accounts in Algeria appeared in 1996 through Ordinance 96-27 of December 9, 1996, in response to the changes experienced by the Algerian economy in the early 1990s, with the adoption of a market economy system that seeks to open markets and contacts with the outside world. The financial accounting system (SCF), which draws its principles from international accounting standards, addressed the issue of accounting consolidation, which includes the notion of the consolidation scope.

Groups of companies should be concerned with their internal evolution and the evolution of their external environment to preserve their continuity in the face of increased competition.

Several professions have emerged to meet this need, notably, management control, which aims to animate the performance monitoring system of different subsidiaries, which consists of defining key performance indicators, the corresponding objectives, and periodically analyzing the variances with the achievements. The group must implement a control system that allows coordinating and converging local systems towards the group's global strategy, taking into account the local context of each subsidiary (Legislation, culture, economic environment, etc.)

The evolution of the economic models of groups sometimes leaves the consolidation perimeter according to IAS/IFRS standards and the SCF quite far from the reality of control over resources and the concentration power exercised by parent companies over their environment.

Given the importance of the subject, we believed it necessary to opt for the following theme: The scope of management control in groups of companies: reflection on the field of exercise of management control in relation to the consolidation perimeter.

To try to answer this, we raised this issue: Is the consolidation scope suitable for the field of exercise of management control within groups of companies?

2. Conceptual Framework of Corporate Groups

The corporate group is a vast and complex subject, challenging to encapsulate due to its remarkable evolution and immense economic significance.

Defining a corporate group encounters certain difficulties due to the absence of specific legislation on one hand, and on the other hand, due to the lack of doctrinal and jurisprudential works based on solid rules. (Meriem Ouassini Sahli, 2014).

The lack of a precise and unified definition of a corporate group, considering its continuous evolutions, necessitates the presentation of the various aspects from which the group is considered, as well as the most important characteristics and forms that distinguish it. From a legal standpoint, a corporate group is defined as « a set of legally independent companies which, connected by shareholdings or contracts, conduct their activities under the direction or control of one of them (referred to as the parent or consolidating company). » (FOSSE & autres, 2012)

The Algerian legislator has mentioned the concept of a group in Article 796 of the Commercial Code, defining it as follows: « Two or more legal entities may constitute, in writing, for a fixed period, a grouping with the aim of implementing all means suitable to facilitate or develop the economic activity of its members, to improve or increase the results of this activity. »

From an economic viewpoint, a group is « a set of companies that are financially and economically dependent on a company referred to as the parent company. This company ensures the direction and control of all the dependent companies, but it does so through a legal structure. »(Pierre & Farouk, 2005)

The group can be defined by one of the masters of modern business law, Yves Guyon, as « a set of companies that are legally independent of each other but in fact subject to a unity of economic decision-making. » (Bruno, 2011)

From an accounting perspective and according to IFRS standards, the following definitions are provided (Bonnier & Delvaille, 2006):

A parent (or mother) company is an enterprise that has one or more subsidiaries.

A subsidiary is an enterprise controlled by another enterprise (referred to as the parent or mother company).

A group is a parent company and all its subsidiaries.

Consolidated financial statements are the financial statements of a group presented as those of a single entity.

According to Article 132-1 of the SCF (Financial Accounting System) in its chapter on consolidation grouping of entities-consolidated accounts, « the consolidated accounts aim to present the assets, financial situation, and results of a group of entities as if it were a single entity. »

As per Article 132-2 of the SCF in its chapter on consolidation-grouping of entities-consolidated accounts, « any entity, which has its head office or main activity on the national territory and which controls one or more other entities, must establish and publish each year the consolidated financial statements of the whole formed by all these entities. »

Through these two articles, it is evident that the financial accounting system has invoked the notion of the group, defining it as a set of entities controlled by a single entity.

From a tax perspective, corporate groups can only achieve adequate development within the framework of appropriate tax legislation.

According to the provisions of Article 138 bis of the CIDTA, instituted by Article 14 of the Finance Law for 1997, a group of companies is defined as « any economic entity of two or more legally independent joint-stock companies, one of which, called the 'parent company,' holds the others, called 'members,' under its dependence by directly holding 90% or more of the share capital, and whose capital cannot be wholly or partly owned by these companies or to the extent of 90% or more by a third party eligible as a parent company. »

From the definitions discussed above, a group of companies can be defined as: « a set of legally distinct companies, but economically and financially linked, conducting their activities under the control of an economic decision-making unit called the parent company. »

The existence of a group is primarily based on the notion of control. Thus, a group can be considered as a control entity with an economic reality rather than a legal one.

The relationships between different companies within a group are varied. It is possible to categorize them into three distinct major categories.

2.1 Financial Links

Even though companies within a group maintain their autonomy, they often come together financially, which is, in fact, the most common case. This financial closeness is primarily manifested through non-contractual links established between the entities, such as equity stakes, the creation of subsidiaries or sub-subsidiaries. (Sahli, 2014).

2.2Personal Connections

A horizontal or personal group is formed by several independent companies that are not financially connected (without subsidiaries or participations) but are all owned by the same leader or a group of common leaders. An example of this would be a situation where a real estate company, a commercial exploitation company, and a commercial distribution company are all owned by the same leader or the same group of leaders. (Georges, 1997).

2.3 Contractual Connections and Inter-Company Groupings

In the context of the rapprochement and alliance strategies adopted by companies, links can be formed. These strategies play a crucial role in the formation or development of groups, as they often precede the creation of a new group or the integration of a company into an existing group. (Georges, 1997).

3. Consolidation Scope of Corporate Groups

The emergence and development of corporate groups have prompted researchers and accounting professionals to seek an accounting technique that can present a reliable picture of the performance and financial situation of the corporate group as an economic unit. This led to the emergence of the account consolidation process.

3.1 Account Consolidation:

Accounting consolidation involves merging the financial statements of several companies, such as the balance sheet, income statement, and notes, in a way that presents them as if they originated from a single entity. The purpose is to provide an accurate and comprehensive view of

the financial situation and performance of the group. (Beatrice & Francis, 2013). By definition, to consolidate is « to substitute for the amount of equity investments listed in a company's balance sheet, after possible restatement, the portion of the net position of the issuing company, including the results of the fiscal year, which corresponds to these securities» (Beatrice & Francis, 2013).

The objective of consolidated accounts is to present the assets, financial situation, and results of the whole formed by a consolidating company and the companies connected to it as if they were a single entity (François & Simon, 2008).

Following reforms in accounting and finance in Algeria through the Financial Accounting System (SCF) project, Law 07-11 of November 7, 2007, was adopted, establishing the financial accounting system. This law repealed all previous provisions, particularly Ordinance N °75-35 of April 29, 1975, on the National Accounting Plan (PCN), and was initially scheduled to come into effect on January 1, 2009, before being postponed to January 1, 2010. This new regulation, which includes seven chapters, addresses numerous concepts, including the consolidation of accounts.

Article 31 of this law states, "Any entity that has its head office or main activity on the national territory and controls one or more other entities must establish and publish each year the consolidated financial statements of the whole formed by all these entities." Subsequently, Executive Decree N ° 08-156 was issued on May 26, 2008 (Journal officiel de la république Algérienne n°27,28/05/2008, s.d.), implementing the provisions of Law 07-11 on the financial accounting system. This decree specified in its first article the modalities of application of Article 36 of Law 07-11, which was the subject of a regulatory text referral, and among the points it addressed. The executive decree on the financial accounting system is a referral issued by the Minister of Finance regarding consolidated accounts and composite accounts in Article N °41.

The order of July 26, 2008, which includes rules for evaluation and accounting, the content and presentation of financial statements, as well as the chart of accounts and the rules for their operation, also addressed the concept and organization of accounting consolidation, as specified in Article 132-1 (Journal officiel de la république Algérienne n°19, s.d.) : « The consolidated accounts aim to present the assets, financial situation, and results of a group of entities as if it were a single entity ».

Article 132-2 also states: « Any entity that has its head office or main activity on the national territory and controls one or more other entities, must establish and publish each year the consolidated financial statements of the whole formed by all these entities. »

According to Article 132-3 « the preparation and publication of the consolidated statements are the responsibility of the management, direction, or supervisory bodies of the dominant entity of the consolidated whole, referred to as the consolidating entity (or parent company)».

International accounting standards also address the topic of account consolidation. In 1976, the IASC adopted its third standard (IAS 3) on consolidated financial statements, applicable from January 1977. Due to the evolution of structures, this standard was replaced in 1989 by IAS 27 "Consolidated and Separate Financial Statements", which became in 2003 "Consolidated and Separate Financial Statements" along with IAS 28 "Investments in Associates", which in 2003 became "Investments in Associates and Joint Ventures", and IAS 31 "Financial Reporting of Interests in Joint Ventures", which in 2003 became "Interests in Joint Ventures", both dealing with

the accounting of investments. In May 2011, the IASB published three new standards related to the preparation of consolidated accounts: IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", and IFRS 12 "Disclosure of Interests in Other Entities".

The old standards IAS 27 and 28 were extensively amended to become IAS 27 "Separate Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures". IAS 31 was repealed (Robert, 2013).

In Europe, this international accounting standard must be applied for periods beginning on or after January 1, 2014.

The current and new standards can be summarized in the table below:

Table 1.Consolidation accounting standards

Before January 2011	After January 2011
IAS 27: Consolidated and Separate Financial Statements	IAS 27: Separate Financial Statements IFRS 10: Consolidated Financial Statements
IAS 28: Investments in Associates	IAS 28: Investments in Associates and Joint Ventures
IAS 31: Interests In Joint Ventures	IFRS 11: Joint Arrangements
	IFRS 12: Disclosure of Interests in Other Entities

Source: developed by us

3.2 Consolidation Scope of Accounts

Defining the consolidation scope involves identifying the group to be represented and determining the various companies whose financial statements will be included in the consolidation (Elisabeth, 2007). This step consists of creating a list of all the companies to be consolidated and deciding on the consolidation method to be applied to them. It is the first phase of the consolidation process (Bruno & Michel, 2009).

To determine whether a company is part of a group and should be consolidated, it's necessary to assess the degree of influence the parent company exerts over the entity. There are three degrees of influence: exclusive control, joint control, and significant influence.

3.2.1. Exclusive Control

The international standard IAS 27 defines control as « the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. » The Financial Accounting System (SCF) has given the same definition to exclusive control through Article 132.5 (Journal officiel de la république Algérienne n°19, 25/03/2009,) which presumes the existence of control in the following cases:

The possession, either directly or indirectly through subsidiaries, of the majority of voting rights in another entity; control of more than 50% of the voting rights through an agreement with other associates or shareholders; the power to appoint or remove the majority of the members of the management of another entity; the authority to establish the financial and operational policies of the entity in accordance with its bylaws or by contract; and the capacity to gather the majority of voting rights at meetings of the entity's governing bodies.

It is clear from the above that control is not solely related to the ownership of share capital and that exclusive control can therefore be:

- ✓ **Legal Control**: Control arising from the possession, either directly or indirectly, of the majority of voting rights within a company. (Éric, 2000).
- ✓ **De Facto Control**: De facto control occurs when a parent company, in practice, appoints the majority of the members of the governing body of a company, even without holding more than 50% of its voting rights. This type of control is usually due to the status of the parent company as the principal shareholder, while the rest of the capital is dispersed among several other shareholders. It is important to note that American accounting standards do not recognize the concept of de facto control. Thus, a subsidiary owned 50% or less could be integrated into the consolidated accounts of a group according to IFRS/IAS standards, but not according to American accounting standards. (Bruno & Michel, 2009).

According to Article 731Bis of the Algerian Commercial Code, de facto control exists (Journal officiel de la république Algérienne n°77,11/12/1996): « when it actually determines, through the voting rights it holds, the decisions in the general assembly of that company. It is presumed to exercise this control when it directly or indirectly holds a fraction of the voting rights greater than 40% and no other partner or shareholder directly or indirectly holds a fraction greater than its own. ».

Contractual Control: According to paragraph (§13-b) of IAS 27, contractual control occurs when the parent company, although owning less than half of the voting rights of a company, has the capacity to influence decisions related to the financial and operational policies of that company, either through a statutory provision or a contractual agreement. There are three distinct types of contractual control (SAIHI, 2011) :

Control Under a Contract with Other Investors: This refers to an agreement where one or more shareholders commit to vote according to the instructions of another beneficiary shareholder. Commonly known as a "voting rights agreement," this arrangement can give the beneficiary the power to obtain the majority of voting rights at general meetings, thereby enabling them to exercise exclusive control. (SAIHI, 2011).

Treaty Portage: If a group lacks the funds to fully finance an acquisition, it may seek support from a financial institution, typically a credit institution, to take over a portion of the ownership of the shares of the acquired company.

Substantive (Economic) Control of Ad Hoc Entities: The concept of economic control or substantive control was established by accounting regulatory authorities to counter structures that escape consolidation. The use of the term "substantive" implies that control is assessed based on economic rather than legal criteria, unlike what has been done until now. This concept is related to the principle of "Substance over form," which prioritizes economic reality over legal form. (SAIHI, 2011).

SIC-12 Interpretation states that « an ad hoc entity must be consolidated when, in substance, the relationship between the ad hoc entity and the company indicates that the ad hoc entity is controlled by the company ». The company is required to consolidate the ad hoc entity even without holding any of its shares. The IAS/IFRS standards are more stringent compared to American standards, which require the consolidation of an ad hoc entity only if the company

owns at least 3% of its capital. (Bruno & Michel, 2009).

The need for a company to consolidate an ad hoc entity is based on three essential criteria: the power to make decisions, the right to receive the majority of the benefits, and the exposure to the majority of the risks associated with the activity of the ad hoc entity.

According to Meyssonnier and Pourtier (François & Frederic, 2013) the practical application of the criteria for de facto or contractual control is infrequent, as historically, groups are mainly composed of companies held at more than 95%.

3.2.2. Joint Control

According to IAS 31, joint control refers to the shared control, under a contractual agreement, of an economic activity. A joint venture is defined as a contractual arrangement whereby two or more parties agree to jointly manage an economic activity.

In this context, no shareholder holds exclusive control that allows them to impose decisions on others. Instead, decisions result from the mutual agreement of the partners. Joint control does not necessarily mean the absence of associates or minority shareholders who do not have an active role in the joint management of the entity.

It is important to note that the Financial Accounting System (SCF) does not provide a definition of this type of control, even though it references it in Article 132.11, which defines an associate entity

3.2.3. Significant Influence

Article 132.11 of the Financial Accounting System (SCF) discusses the concept of significant influence by defining an associate entity as follows: it is an entity over which the consolidating entity has significant influence, which is neither a subsidiary nor an entity established for joint operations.

significant influence is presumed to exist in the following cases (Journal officiel de la république Algérienne n°19, 25/03/2009): The possession (direct or indirect) of at least 20% of voting rights; presence within the management bodies; contribution to the development of strategic policies; as well as engaging in significant transactions, exchanging crucial technical information, or the rotation of managers and executives.

According to IAS 28, an investor is presumed to have significant influence if it holds, directly or indirectly (for example, through subsidiaries), 20% or more of the voting power in the investee, unless it can be clearly demonstrated otherwise.

The basic principle is that any entity over which the consolidating company has exclusive control, joint control, or significant influence must be included within the consolidation scope. However, there are specific rules that permit the exclusion of certain entities. The IAS/IFRS standards strongly emphasize preventing deconsolidating structures, thus making the cases for exclusion from the consolidation scope very restricted.

Two types of exclusion from consolidation are distinguished: Mandatory and Optional.

An entity must be mandatorily excluded from the consolidation scope in the following situations (Bruno & Michel, 2009):

- ✓ The entity is intended to be sold in the near future (in accordance with IFRS 5), and is therefore valued at the lower of its historical cost and its sale price minus the costs of disposal;

- ✓ The parent company has lost the ability to direct the financial and operational policies of the entity following interventions by a government, court, judicial administrator, or regulatory authority;
- ✓ The parent company has lost control of the entity due to a contractual agreement (such as a voting rights agreement).

In accordance with Article 132.6 of the Financial Accounting System, entities subject to severe and enduring restrictions that significantly compromise the control or influence exercised by the consolidating entity are not included in the consolidation scope. The same applies to entities whose shares or units are held solely in anticipation of their future short-term sale. Any exclusion of entities from the consolidation that fall under these categories must be explicitly justified in the notes to the consolidated financial statements.

An entity may be optionally excluded from the consolidation scope when:

- ✓ In the case of non-significant size subsidiaries (Bruno & Michel, 2009): The consolidating entity has the option to omit from its consolidation scope entities of small size if their exclusion does not "significantly" affect the representation of the accounts.
- ✓ When the information necessary to prepare the consolidated financial statements involves significant costs or the timeframes for obtaining them are not suitable (Redha, Elisabeth, & Christophe, 2013).

According to Article 132.4 of the Financial Accounting System, a dominant entity may be exempted from producing consolidated financial statements if it is almost entirely owned by another entity and has received the approval of minority interest holders. Near-total possession implies that the dominant company holds at least 90% of the voting rights.

The following entities cannot be excluded from the consolidation scope(Bruno & Michel, 2009) :

- ✓ The subsidiary where the parent company is a financial investor, such as a venture capital firm, mutual fund, or trust;
- ✓ The subsidiary that operates under enduring constraints preventing the transfer of funds to the parent company, such as dividends, loan repayments, or the upstreaming of cash surpluses in the context of a cash pooling system;
- ✓ The subsidiary whose business activity and accounting presentation structure significantly differ from those of other group activities, like a bank or a finance company belonging to an industrial, commercial, or service group;

Ad hoc entities that meet the previously stated criteria.

Based on the three types of control examined previously, we can conclude that the power exerted by one entity over another requires assessment. This assessment of power should primarily be based on the share of voting rights owned. It is calculated via the percentage of voting rights or the percentage of control. It is important not to confuse the percentage of control with the percentage of interest.

The percentage of control determines the nature of the dependency link between a company and the one whose capital it holds, directly or indirectly. It is expressed as a percentage of voting

rights. (Bonnier & Delvaille, 2006).

The percentage of interest corresponds to the share of capital held by the parent company of the group, directly or indirectly, in each concerned company. It is obtained by multiplying the holding percentages of the companies constituting the "chain of control."

4. The impact of new international standards on the consolidation scope

He consolidation scope according to international accounting standards, as we previously mentioned, now includes several weaknesses, such as:

The application of the notion of control is different in cases where the majority of voting rights is not held.

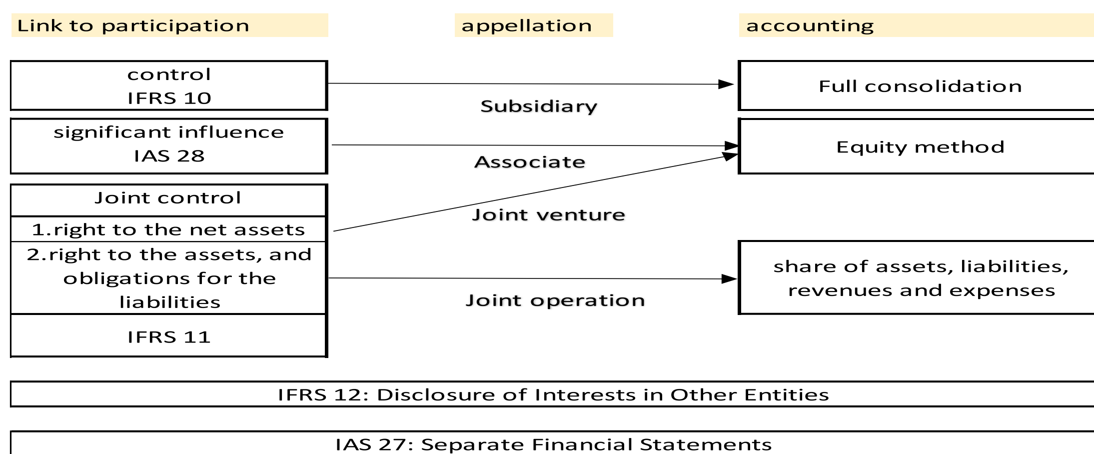
Conflict between IAS 27, which defines control as "the power to govern the financial and operational policies of an entity to obtain benefits from its activities," and SIC 12, which emphasizes more on risks and benefits.

The financial crisis that began in 2007 highlighted the lack of transparency regarding the risks to which investors were exposed in their involvement with ad hoc entities such as securitization entities.

The parent company has the choice of applying the proportional integration method or equity method concerning jointly controlled entities.

Additionally, the G20 group and the Financial Stability Board, among other stakeholders, have requested the IASB to review the accounting and reporting requirements for such entities. The new framework can be presented as follows:

Fig.1.the new account consolidation system according to IFRS standards



Source:developed by us

In the revised IFRS standards, there is no longer any reference to specific consolidation methods based on types of control. Reference is made in IFRS 10 (§ B86) to a consolidation procedure in cases of control (without naming it), and in IAS 28 and IFRS 11, to the equity method when control is only joint, or when there is only significant influence. It is recalled that in the first draft of IFRS in 2005, the methods of consolidation were more clearly presented (Dominique, Paris). It should be noted that the proportional integration method has been replaced by the equity method according to IFRS 11.

According to Meyssonnier and Pourtier (François & Frederic, 2013) the concept of

substantive control reaches its peak with IFRS 10, which broadens the definition of control (and thus the scope) to entities controlled by more complex or diversified means than simple majority capital links. The standard establishes that control is based on the combination of three criteria: power over the relevant activities of the entity, exposure to variable returns, positive or negative, and the ability to use that power to influence these returns. As several experts point out (see for example Mazars, 2012), the concept of benefits has been replaced by the broader concept of returns, including specific benefits to the investor such as synergies, economies of scale, or access to rare resources. Nevertheless, the legal and capitalistic relationship remains fundamental. Thus, according to Mazars, although there is no official threshold determining from which consolidation is necessary to assess the criterion of exposure to variable returns, an implicit threshold of about 20% seems to be recognized to consider that the condition relating to exposure to returns is satisfied. In practice, few changes are expected, except perhaps in the sectors of fund management or infrastructure concessions.

5. Management Control within Corporate Groups

Group management control is a central function located at the group's headquarters. Its main mission is to animate the management control system within the group by establishing a performance monitoring and management device in close collaboration with the directors and/or controllers of the subsidiaries. It involves receiving reports prepared by these subsidiaries and consolidating them for the parent company.

In a decentralized organization, the management control system is more complex than in a simple SME-type organization. Therefore, the performance management process within corporate groups must be exercised both at the global level (the parent company) and at the local level of the entities that compose it, in order to benefit from both the vision of the entire group and the level of the subsidiaries (François & Al, 2005)

The management dynamics then become more complex, and the system for measuring "global" performances must be supplemented with more "local" measurements, that is, from each of the subsidiaries.

Therefore, performance measurement at the group level is directed towards two types of users: the managers of the subsidiaries on the one hand, and the group managers on the other.

6. Scope of Management Control in the International Alpha Group

After presenting the theoretical aspects related to corporate groups and the consolidation scope, we attempted to illustrate the management control scope of a corporate group through a case study conducted within a multinational group.

The choice was made to focus on the Alpha group, a publicly-traded multinational company specialized in the agri-food sector, present in several markets around the world. The case study concentrates on the Africa division, headquartered in Paris.

To understand the management control scope of the Alpha group, in terms of performance management while considering the specificities of each entity and organizational difficulties, we first utilized internal and external documentation on the group, leading to foundational insights about the scope of central management control.

The objective of this study is to analyze the management control scope in comparison with

the account consolidation scope. This enables us to address the research question concerning the management control scope.

For confidentiality reasons, the leaders of the Alpha group required anonymity regarding the identity of the group. Therefore, the name of the group is a pseudonym.

The Alpha group is a large international company specialized in the agri-food sector. It is organized into five major divisions comprising companies operating in the same geographical area. Each geographical area is organized in the form of a sub-group composed of several subsidiaries.

Our attention focused on the Africa division, which includes all entities operating in the African continent, Mayotte, and Réunion.

7. Presentation of the Africa Division's Scope

To study the management control system of the Alpha group, we conducted our case study within entity 168, a subsidiary of the Alpha group, tasked with overseeing the Africa division.

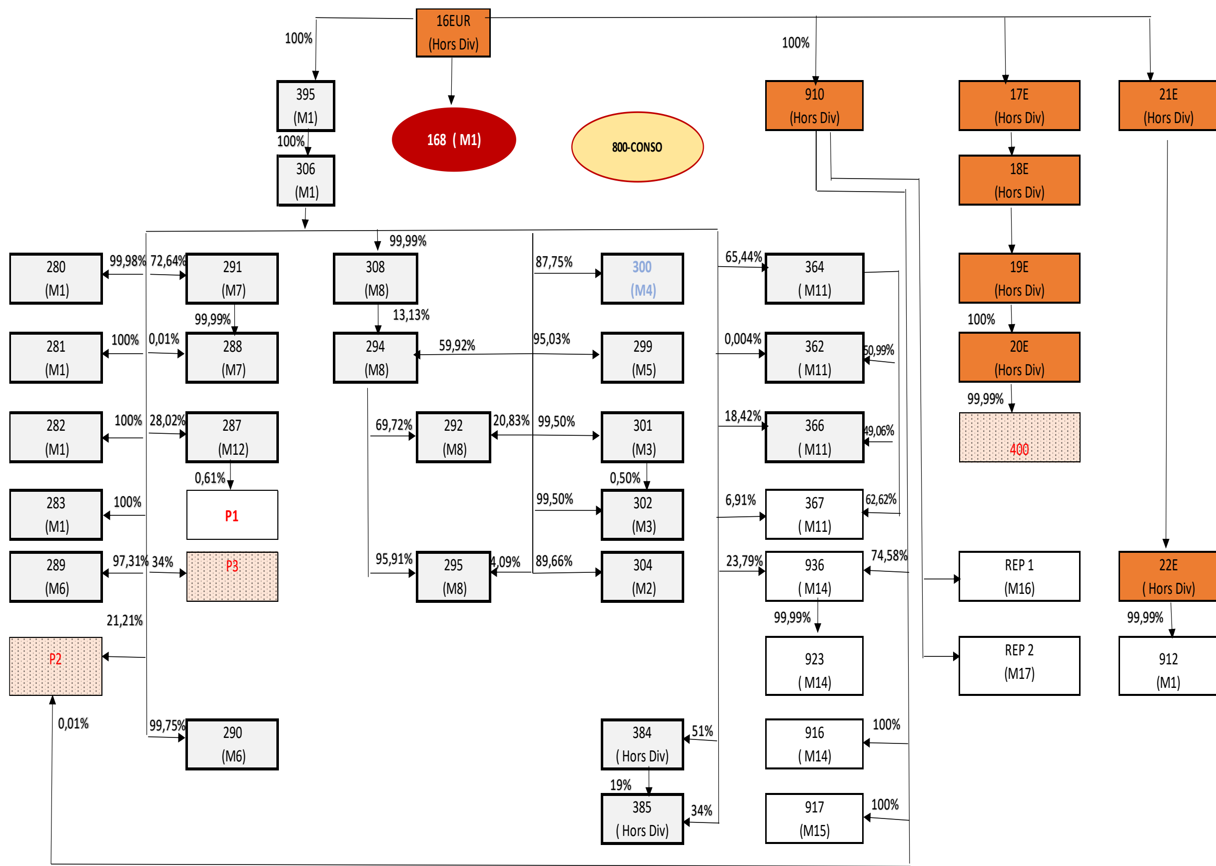
Entity 168 is a small management structure based in Paris, employing an average of 25 people. It acts as a holding company, even though it does not hold shares in the subsidiaries controlled by the group. It actively participates in the implementation of the group's policy and the control of its subsidiaries.

Entity 168 centralizes control activities at its level indiscriminately across all companies in the division. In addition to its involvement in the group's policy implementation and subsidiary control, it provides administrative, financial, legal, HR, and IT services to these subsidiaries.

All departments of entity 168 have functional and/or hierarchical links with the management of the Alpha group and the subsidiaries of the Africa division.

The diagram below presents the scope of the Africa division:

Fig.2.legal organization chart of the Africa division



Source:carefully prepared based on company documentation

The analysis of the above organizational chart has allowed us to observe that company 168 does not control any subsidiaries within the division. However, its role is to manage the consolidation scope of company 395 and other entities that belong to other subsidiaries of the Alpha group but operate in the African region.

The Africa division is thus represented by all the companies shown in the organizational chart except those outside the Cluster. We notice from the organizational chart that the Africa division has several subsidiaries, participations, and partnerships in various markets.

The parent company 16EUR controls five intermediary companies that simultaneously hold positions as both subsidiaries and parent companies, with the exception of 168, which does not control any companies. Therefore, the Africa division is represented by all companies under the control of 16EUR, excluding those outside the cluster. It should be noted that these companies are included in the organizational chart because they have subsidiaries operating in the African and Indian Ocean regions, even though they themselves do not operate in this area.

In summary, the Africa division comprises all companies consolidated by 395, 168, and all companies under the control of 910, 17 E, and 21 E operating in Africa. We notice that companies operating in the same geographical area are not controlled by the same parent companies. This is explained by the fact that these companies were not acquired at the same time by the Alpha group.

For example, 912 was attached to the Africa division following the acquisition of group 21 E.

There are two types of scopes within the Africa division: A consolidation scope under the control of 395, and a management control scope including companies operating in the geographic area but controlled by parent companies operating in other divisions.

The management control scope of the Africa division thus comprises the following companies:

395, controlled by 16EUR and itself acting as a parent company including 29 companies, of which 24 are consolidated subsidiaries.

The consolidation scope of 395 is established based on the control percentage, which identifies the companies to be included in the consolidation scope and the applicable consolidation methods.

395 holds a control percentage of over 50% in all consolidated companies, either directly or indirectly, i.e., through exclusively controlled enterprises, except for 287, which is held at 28.02%.

All exclusively controlled companies are consolidated by full integration. It is worth noting that 287 is consolidated by equivalence.

Companies P2 and P3 are excluded from the consolidation scope because they are inactive. Company P1 is also excluded from the consolidation scope due to a break in the control chain. As for 367, the group considers its net assets not significant enough to be consolidated.

The entire subgroup controlled by 395 is present in the Africa and Indian Ocean region, except for 384 and 385, which operate in another geographical division.

- 168, controlled by 16EUR, has no companies under its control.
- 936, 923, 916, and 917, controlled by 910.
- The two representative offices Rep1 and Rep2 controlled by 910.
- 400, an inactive company, indirectly controlled by 17 E.
- 912, indirectly controlled by 21 E.

The Africa division applies direct consolidation as opposed to the group, which consolidates by tiers.

On the organizational chart, we notice the presence of company 800-CONSO. This company is not a legal entity but was created to pass the consolidation entries of the accounts.

The table below presents the scope of the Africa division by business and market:

Table 2. Organizational chart by market and by function

Entities	Markets	Function	Business_Unit	Consolided by the 395
304	M2	Manufacturing	All	yes
302	M3	Manufacturing	MFG	yes
301	M3	Sales	S&M	yes
300	M4	Manufacturing	All	yes
299	M5	Manufacturing	All	yes
289	M6	Manufacturing	All	yes
290	M6	Manufacturing	All	yes
291	M7	Sales	S&M	yes
288	M7	Manufacturing	MFG	yes
294	M8	Sales	S&M	yes
295	M8, M9,M10,M4	Manufacturing	MFG	yes
292	M8	Manufacturing	MFG	yes
308	M8	Holding	S&M	yes
287	M12	Manufacturing	All	yes
364	M11	Manufacturing	MFG	yes
362	M11	Sales	S&M	yes
366	M11	Manufacturing	MFG	yes
384	Out of cluster	Sales	S&M	yes
385	Out of cluster	Sales	S&M	yes
306	M1	purchasing platform	S&M	yes
280	M1	purchasing platform	S&M	yes
281	M1	purchasing platform	S&M	yes
282	M1	purchasing platform	S&M	yes
283	M1	Brand royalties	All	yes
395	M1	purchasing platform	S&M	yes
800	M1	Holding	All	yes
168	M1			no
16EUR	Out of cluster			no
912	M13			no
916	M14,M18,M19			no
917	M15			no
923	M14,M18,M19			no
936	M14,M18,M19			no
REP1	M16			no
REP2	M17			no

Source:carefully prepared based on company documentation

We observe that the Alpha group is established in 19 countries/markets in Africa and the Indian Ocean. The basic unit is the subsidiary or management entity. Each subsidiary may cover several business areas. Performance monitoring is provided by business area, but the contractual level is the subsidiary.

The industrial nature of the group has led it to divide into two siloed business areas: Manufacturing "MFG" and Sales & Marketing "S&M". Within the consolidation scope of 395, we distinguish three different categories based on the activity of each subsidiary:

- All: Subsidiaries under the "All" business category represent entities that engage in both industrial "Manufacturing" and distribution "S&M" activities.
- MFG: Subsidiaries under the "MFG" business category represent the factories.
- S&M: Subsidiaries under the "S&M" business category represent entities involved in distribution and all other entities that do not have an MFG activity.

We note that each subsidiary may also cover one or more markets. Market M1 is represented by the following 08 subsidiaries:

- 306, 280, 281, 282, 395: These are purchasing offices. Their roles are to buy raw materials in France and export them to Africa and the Indian Ocean for other subsidiaries under the control of 395. Only 281 and 282 still operate as purchasing offices. 306 and 395 manage participations, while 280 is being considered for liquidation.

- 283: This subsidiary holds the main brands marketed by the group within the Africa division.
- 800-CONSO: Its role is to pass accounting consolidation entries. As previously mentioned, this entity has no legal requirement.
- 168: This entity is not part of the consolidation scope of 395.

Market M2 is covered by subsidiary 304, which manufactures and distributes the product within the market. Similarly, 299 covers market M5.

Market M3 is represented by 302, which handles manufacturing, and 301, which distributes to consumers. The same applies to market M7, represented by 288 and 291.

M4 is represented by subsidiary 300, but as it is being liquidated, products for this market are manufactured and exported by 295.

Market M6 is primarily covered by subsidiary 289, which manufactures and distributes products within the market. 290 is inactive.

Market M8 consists of two factories: 295 and 292, a distribution entity: 294, and a holding company: 308. 295 also handles the manufacture and distribution of products for export to markets M9, M10, and M4.

In market M11, the Alpha group operates through 3 subsidiaries. 362 handles the distribution of finished products from 364 on a national scale. The factory 364 is supplied by 366.

Market M12 is covered by entity 287, which manufactures and distributes the product within the market.

Market M13 is covered by entity 912, which manufactures and distributes the product within the market.

Market M14 is covered by entities 936 and 923, which manufacture products. Distribution is handled by 916. 936 and 923 also handle production and export of products marketed in markets M18 and M19.

Market M15 is covered by entity 917, which manufactures and distributes the product within the market.

M16 is covered by a local partner who manufactures and distributes Alpha group products under license within the market. The partner purchases raw materials and pays royalty fees to 910. REP1, a branch of 910, has no economic activity. Its role is to support the brands marketed in market M16 and conduct market research at the group's request.

Despite not being part of the consolidation scope, the local partner's activity in market M16 is managed by management control.

M17 is also covered by a partner who distributes products exported by 910. REP2 plays the same role as REP1.

Markets M13, M14, M15, M16, M17, M18, and M19 are represented by entities outside divisions (not controlled by 395). These markets are called export markets and are managed differently from other markets in terms of consolidation.

8. CONCLUSION

In our study on the management scope within corporate groups, we endeavored to define and analyze the management control perimeter in such groups in relation to the accounting rules

defined by the French General Accounting Plan (Plan Comptable Général, PCG) and international standards. From the theoretical framework presented, it emerges that the consolidation scope includes companies over which parent companies exercise exclusive control, joint control, or significant influence.

Despite the broadening of the control scope by the IFRS 10 standard, which recognizes substantive control, our theoretical study revealed that the consolidation scope sometimes remains distant from economic reality. The analysis of the management control perimeter of the Alpha group has shown us that the scope of management control practice is much broader than the consolidation scope. The inclusion of the local partner's activity in the management control perimeter is a prime example demonstrating that management control extends beyond the consolidation perimeter.

This observation underscores the complexity and dynamic nature of management control systems in large corporate groups. It reflects the need for a nuanced approach to understanding control and influence within such entities, going beyond mere financial consolidation to consider the practical aspects of management and operational control. The Alpha group's case exemplifies how theoretical models and standards may not always fully capture the realities of corporate governance and management practices.

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