



## **MECHANISM OF MANAGEMENT CONTROL PROMOTING SUSTAINABLE DEVELOPMENT**

**Maryna Afanasieva**

Institute of Economy, Management and International Business  
National Technical University “Kharkov Polytechnic Institute”, Ukraine  
[marinaafanaseva911@gmail.com](mailto:marinaafanaseva911@gmail.com)

### **Abstract**

*By definition control is function of management which ensures the real goals achievement by entities through supporting positive and preventing negative practices. In transforming societies control challenges are increasing. For example, in Ukraine we have the official rules for control borrowed from developed states and poor economic results including because of mentality of people. So, our aim is to improve the control's mechanism with a focus on involving human capital. We have worked out goals, tasks and monitoring indicators for strategic control linking them with socioeconomic processes of development. There is sequence of strategic and operational control we have to follow. Also we have described different kinds of economic control revealing specificity of civil control and useful of their partnership. We suggest a share of value added in output of main operational activity of enterprise as final indicator of quality of applied technologies including management and control as well. Working we relied on the concept of sustainable development (hereinafter - SD) supported by the UN, the stakeholder theory, the theory of systems and historical approach; used logical method, analysis and synthesis techniques.*

*Keywords: Management control's mechanism, sustainable development, stakeholder theory, theory of systems, historical approach*



## INTRODUCTION

The big transformations happened in the World last thirty years. All of them demand appropriate responses concerning societal mechanisms. We mean such changes as the transfer number of States of East Europe from command to market economy, globalization including activity of International business corporations and professional organizations, the Internet and big data appearance and so on. What way should economic control change in such terms in? Many functions and instruments have to be moved from government administration to other gropes of society in the market economy, hence new control philosophy, methods and indicators have to be established. Information and computer technologies give new opportunities for control too. In the developed countries role of control is significant [Deepening EU-Ukrainian (2018)].

There are modern theories of management such as the SD concept, stakeholder theory and theory of systems, which have to be applied for improving control on scientific base. However, in Ukraine control mainly remains a tool for collection of penalties and pressure on business. It feeds the negative relation to control among many people, so management control doesn't help to develop economic activity under such circumstances. This situation must be changed through disclosure of control's mechanism which promotes SD. It can be useful for other countries too. It is a purpose of our paper. The relevance of this topic is confirmed by scientific literature reviews [Bedford, R. (2015); Lueg, R., & Radlach, R. (2015)].

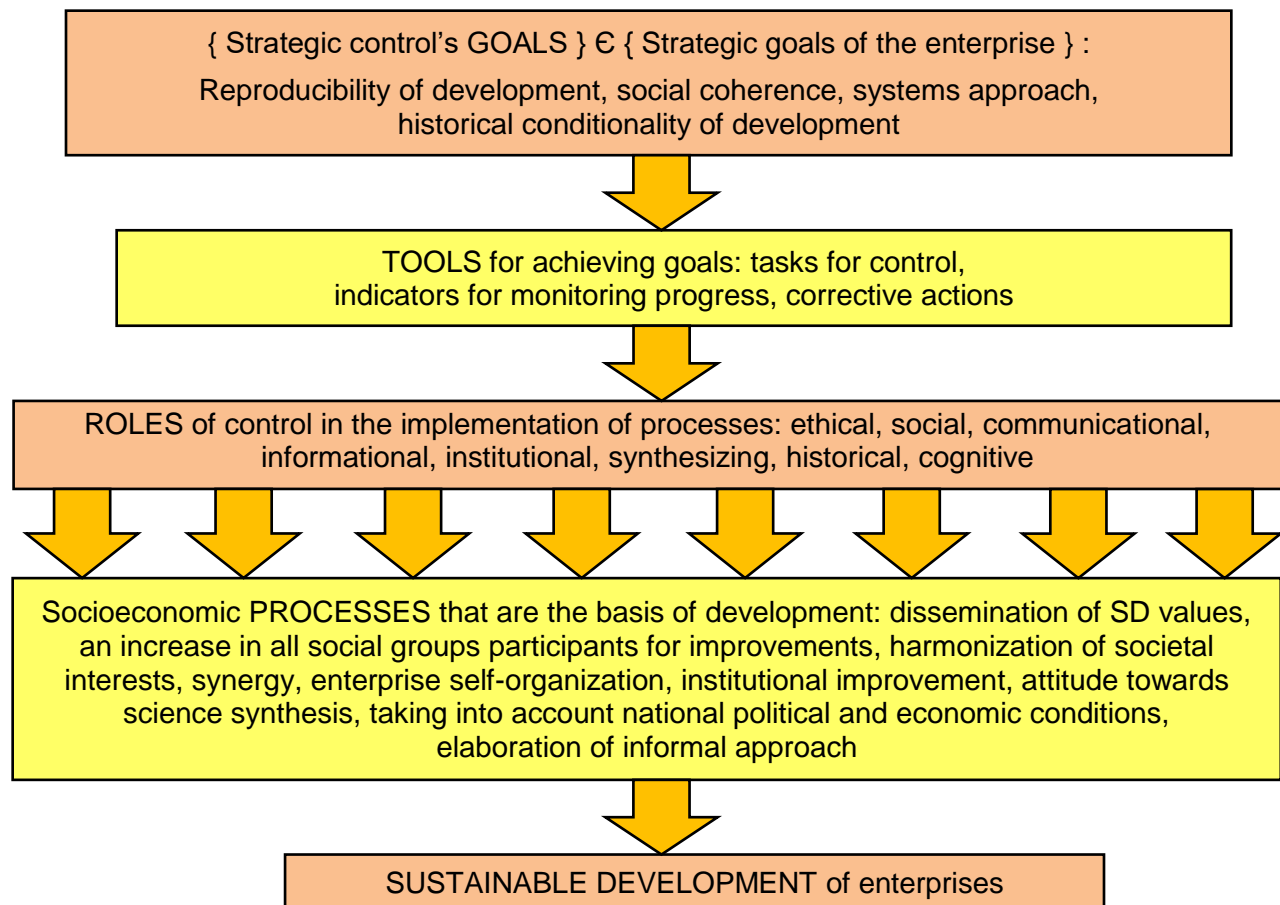
## RESEARCH DESCRIPTION

Along academic vocabularies a mechanism is a set of means which allow accomplishing a desired function. In other words, it explains how something works.

We have thoroughly researched the SD concept [Business strategy (1992); Kates, R., Parris, T., & Leiserowitz, A. (2005)], stakeholder theory [Harrison, J., Freeman, R., & Abreu, M. (2015)] and theory of systems [Melnyk, L. G. (2016)] and applied a historical approach to understand which processes underlie sustainable development of enterprises. We answered not only the question "What should control do?" but also "Why and how does control do that?" We distinguished such important socioeconomic processes as strengthening the SD values, expanding the social platform of improvement, reconciling the stakeholder interests, synergy, self-organization of entities, attitudes toward scientific synthesis, improving the institutional environment, taking into account the political and economic conditions, which ensures the sustainable development of enterprise. Father we revealed the nature of appropriate roles of control such as ethical, social, communicational, informational, synthesizing, institutional, historical, cognitive ones which turn control into effective one and lead to desired results.

The essence of these control roles is follows. The ethical role means a commitment to ethical standards. The social role is an interaction with many persons of different social status. The communicational role means an organization of communications around business operations. The informational role is collection, and processing, and production of new information. The synthesizing role means a finding joint result for different approaches. The institutional role is a strengthening the societal institutions. The historical role means acknowledgment of historical features. The cognitive role of control is a finding new ways for goals achievement. Namely, the proposed control's mechanism is the set of links between special control's roles and socioeconomic processes of development. Diagram of it is shown in the figure 1.

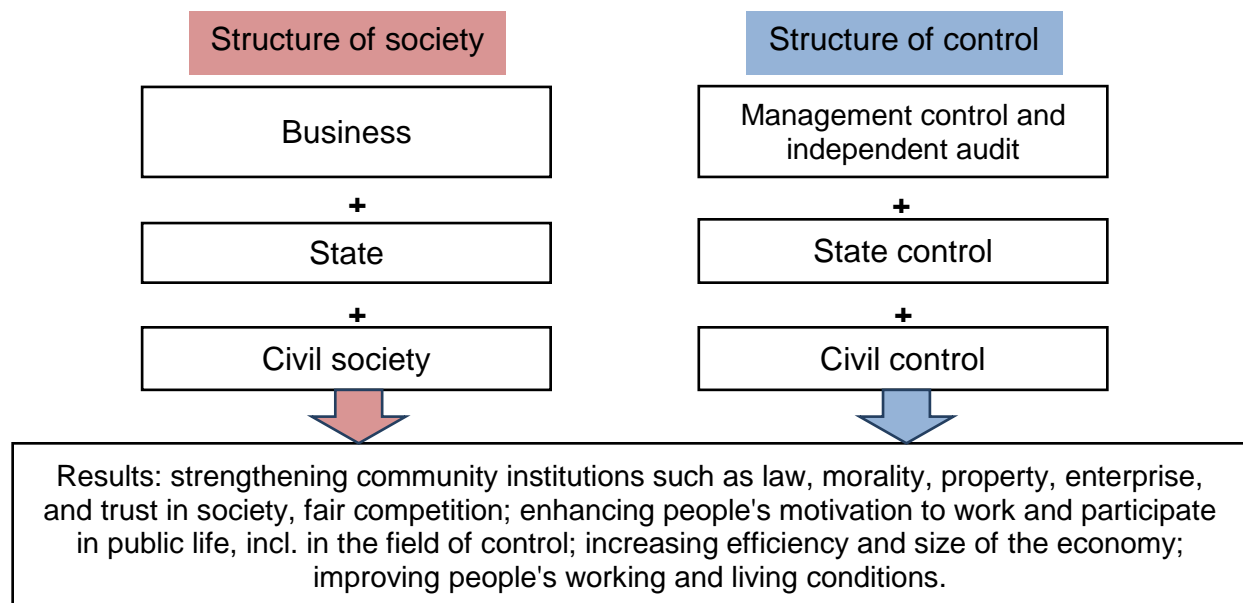
Figure 1. Diagram of the management control's mechanism (source: developed by author)



According to the theory of systems, an enterprise is open creature, so its sustainability will increase if entity interacts with environment. In this context let us consider all kinds of control in the figure 2. As you can see, every kind of societal group correspond definite kinds of control including business, State's and civil ones. We divided them basing on their priority interests.

That is offering paid services for business control (entrepreneurial one and independent audit), keeping hierarchy of power for State's one, and development for civil control. All of them contribute to sustainability and when they interact we'll have synergy, i.e. more significant results. We have specified the civil control as those that responses for advancement of the SD values to business strategies, and detecting big risks of inefficiency by conscious professionals with possible support of all groups of society or International organizations. Such analysis has to be in open access.

Figure 2. Diagram of economic control's system (source: developed by author)



Now let us to outline our scientific findings about control based on theories and own reasoning mentioned above.

Compliance by control's subjects with their own standards of ethics and professionalism, which are obligatory for the organization of quality control, updates similar qualities for those with whom it interacts both inside and outside the enterprise including contacts between different social groups. This contributes to the dissemination of basic values by expanding the relationships between decent people. Respect by supervisors for the diligent worker encourages more staff to take more responsibility for their own company and improve processing.

Control is professional activity hence it allows to expand social base of improving by involving more honest professionals.

The first stage of the stakeholders' reconciliation should be a personal identifying and promoting one's own interests directly by every societal grope. If this information replenished by

expectations of other subjects it would be substantially distorted. Monitoring the use of information from first sources can ensure more qualitative and fast result.

Civil control according to its nature responses for strategic approach to all kinds of control and enhances all management control roles. Partnership between civil and business controls is very promising and can help entities to be improved.

Applying different kinds of control increases communicational and analytical options for management which create conditions for synergy, hence for efficiency of enterprise.

It is very important to change main sense of control from penalties on creation information for self-organization of enterprise that have to be objective and powerful. Along the theory of systems a self-organization needs positive feedback. We assume it arises in interaction "society – business" when management takes into account an information about him from civil control as alternatives in decision-making process of enterprise. Further, if management makes decision based on this alternative it will be direct link (feedforward) between control and subsystem run by him. Such decisions are most promising for SD of enterprise.

Realization of control function demands interdisciplinary approach, i.e. a synthesis of management and accounting controls and economic activity analysis as well. The first reveals the control's mechanism; the second one creates the control tools and initial information; and the third one gives the methods of analyzing of this information for decision-making. It is very important for different specialists to cooperate during writing the rules or control activities.

Checking a compliance with legislation during economic control strengthens the societal institutes and improve the competition terms.

To be successful control must acknowledge specific political and economic circumstances in the state and adjust his rules to it.

As it is known, if serious transformations happen, it will necessary to combine formal monitoring of classical indicators, e.g. turnover, profitability and so on, and informal control. We assume the way it becomes possible is an interaction between civil control and business. It allows verifying the goals, tasks, indicators and applying new tools of control together with civil society. These things can be also useful for all kinds of economic control.

If we return to figure 1, we'll see that the control's roles are activated by setting strategic control goals, tasks for each of them, indicators for monitoring progress, possible correction actions. Management control's **goals and tasks** as part of the developed mechanism are presented in four relevant sections below.

I. Control's goal connected with the SD concept: the strengthening of ethic and professional values and involving improvement via partnership. For this, the control tasks are:

1. Follow to control standards of ethics and professionalism *promoting the spread of these values in the society due to a predominant circle of relationships "decent to decent"*.
2. Support the honest and hard-working people implementing best practices by the verification of the remuneration correspondence to the personal contribution to the company's achievements; recommendations for these persons' access to other resources.
3. Check the consistence with people's minds when approving and implementing plans.
4. Monitor the completeness of information disclosure in financial statements.
5. *Support the different types of control subjects such as professionals having civil consciousness.*

II. Control's goal connected with the stakeholder theory: harmonization of societal interests. For this, the control tasks are:

1. *Support the personal identification and promotion of own interests directly by each social group.*
2. Control the fixation of company's values and responsibility for keeping to them in a document, and cases missing requirements of this document in real life.
3. Control the establishing and compliance with corporate social responsibility goals.

III. Control's goal connected with the systems theory: the systemic development of enterprises. For this, the control tasks are:

1. Receive signals from outside, other management subsystems and business units (in last case it is feedback), analyze them and timely response.
2. Organize communications and promote information, which are the basis for synergy. It needs to consolidate for values. *Deepening of the interaction between different types of control including business and civil ones has a synergistic effect as well.*
3. Create the necessary information for activating the enterprise self-organization (feedforward). Only under such conditions the control is complete, and hence effective.
4. Control the compliance with legislation *strengthening societal institutions and improving business conditions.*
5. *Increase in the objectivity and significance of the control findings including ones due to the civil society. After that, a positive feedback mechanism takes effect, which is necessary for the company's successful self-organization.*

6. Propose the different development options by identifying positive examples for inheritance and reserves of production factors for changing the situation.
7. Keep the control's professionalism and regularity to protect against destructive power of bifurcations.
8. *Synthesize of several scientific fields, namely, management and accounting control, economic and statistical analysis in order to implement effective control.*

IV. Control's goal connected with historical approach: taking into account national political and economic conditions. For this, the control tasks are:

1. Check taking into account national features in standards of control *beginning from acknowledgment of them*, e.g. Ukraine is in the big transformations though economic indicators and quality of life remain low.
2. Under such conditions, the control requires a combination of informal and formal approaches. It needs *to verify the development goals and improve the quantitative methods of control participated by the civil society, i.e. interactive ones.*

Additionally to goals and tasks our control's mechanism includes **indicators** for monitoring of progress (for every task). Some of them by sections are follows.

I. Control indicators for goal "the strengthening of ethic and professional values and involving improvement via partnership".

For task 1 - Number of cases of violation by the subjects of control of their own standards of ethics and professionalism, e.g. in the area of ensuring the rights of those being checked, when their positive achievements are reflected in full, and negative moments - only after discussion and in the case of significance.

For task 2 - Share of strategic plans and annual reports on implementation of operational plans that have been previously discussed and approved by team.

For task 3 - Indicator of correspondence of finance receiving to the worker's contribution in the company result (correlation coefficient and expert assessments); taking into account the qualification when setting a salary ("yes" or "no", in more detail - in the operational control unit ).

For task 4 – Availability of financial statements in the state registers and on the websites of enterprises, decoding in the reports the expenses by economic elements, the natural indicators of main activity, the applied technologies, the number of employees in full time equivalent, the reward to managers ("yes" or "no"; more details - in the operational control unit).

For task 5 - Number and title of studies conducted by professional organizations, which are taken into account in management decision making that improve standards and quantitative control methods for enterprise (*this is too relevant to tasks II.1, III.1, III.2, III.5, IV.2*).

## II. Control indicators for goal “harmonization of stakeholders’ interests”.

For task 1 – The degree of the customers and community interests consideration (on a scale "more fully taken into account, partially taken into account, more largely disregarded", on a more detailed scale - in the operational control unit).

For task 2 – Availability of a document about values of the firm, examples of its implementation, including managers and owners, the number of violations.

For task 3 – Presence of a document about corporate social responsibility goals which passed through preliminary collective discussion and approval, examples of its implementation, number of violations.

## III. Control indicators for goal “the systemic development of enterprises”.

For task 1 – Availability of access to business communication channels within the company and to receive offers from outside, e.g. the Internet, mobile communication, meetings.

For task 2 – Availability of a business communication policy, including an administrator who forwards questions to responsible persons, time to answer, cases of referral to a higher level; the number of cases where people's opinions are taken into account in a management decision with a brief description of alternative proposals.

For task 3 – The number of reports of controllers that do not contain sufficient information to make management decisions improving the enterprise.

For task 4 – The number of cases when due to control the algorithms of economic processes have been changed in the direction of compliance with the law, including for the benefit of employees and community.

For task 6 – Availability of economic analysis in conclusions of control, e.g. revealing the production factors reserves or risks; a description of modern technologies that have led to improved performance.

For task 7 – Availability of controller’s qualification; correspondence of the inspections number to the established schedule.

For task 8 – Number of joint inspections by management and accounting controls; the number of jointly developed control standards.

## IV. Control indicators for goal “taking into account national political and economic conditions”.



For task 1 – The presence of documents (separate provisions in the documents) reflecting particular domestic political and economic conditions.

For task 2 – Number and description of the control's improvements involving civil control.

We suggest setting a significance threshold as a failure to perform the strategic task or gross violation of the SD provisions, first of all, respect to person as main SD factor; negative dynamic of violations. **Response to control results** in case of going beyond the significance threshold is revealing the causes of deviation, and then corrective actions depending on specific circumstances. They can be the clarification with staff; administrative penalty to the head of relevant unit or to the direct offender; the personnel decisions (transfer or dismissal); specification of control standards, first of all, verification of the fundamental (not to be confused with the operational) ability to perform the task under the existing conditions.

We draw attention to the need and importance of educating people about the SD concept and the proposed control's mechanism. They appeal to a person's philosophy as thinking, and active, and responsible man, to a certain level of culture, i.e. to some changes in the mentality of previous times, which difficult are got sometimes. Specialized seminars of experts as well as discussions with staff are useful here. Particularly important is the understanding of the scientific provisions described by managers, because they form the enterprise policy, its strategy and tactics, provide models of behavior, guidance on actions in certain situations. Underestimation of the things described can be a serious obstacle to development.

## CONCLUSIONS

Based on theories of management we have concluded that sustainable development of enterprises firstly is changes of people's consciousness towards respect for nature and culture and shared responsibility, which leads to similar changes in all social groups and types of economic activity and their subjects, providing high efficiency of business and decent working conditions, and preserving the environment. Priority for improving control is an attracting the human capital.

The proposed management control's mechanism is set of links between special control's roles and socioeconomic processes of development. Such control promotes SD, motivating more participants of business transactions to more fully use their own potential. It is able to increase both the effectiveness of enterprises and people's satisfaction.

Strategic approach to the implementation of management control should be determined by civil control as driver of development.

It is necessary to follow the sequence of implementation of strategic and operational control units, when the meeting requirements of the first unit create the necessary prerequisites for the effectiveness of the second one.

Partnership between business and civil control is promising. If company takes into account the recommendations of civil control in own decision making, it contributes to the sustainable development of enterprise improving management quality and reducing uncertainty and risks.

## WAY FORWARD

This research focuses on strategic control. It will be useful to include our findings in educational program in the field of management. Also it needs to follow monitoring the features of strategic control in public financial statements of enterprises and check their compliance with theories mentioned above and sustainability. If we move to operational control, its main task is efficiency of activity. We suggest a share of value added in output of main operational activity of enterprise as final indicator of quality of applied technologies including management and both kinds of control as well. It can be theme for father research.

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