

Management Control in Contemporary Organization: Opportunities, Challenges and Research Directions

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ABSTRACT

This paper deals with management control as an important instrument for managing performances in modern organizations. The paper indicates to the circumstances in which classical theory of management control was created, and describes its process of functioning, with the specifics in large organizations. The aim is to point to some open questions and directions of further development of the management control, as well as to at least partially fill the gap that exists in the domestic literature. The conclusion is that the existing management control framework remains still valid. Open questions can be best resolved within the concept that observes this matter as a "package" of different control systems, not just those that are oriented to accounting-based performance measures.

Keywords-- Organizational Performance, Management Accounting and Control Systems, Sustainability-Oriented Innovations, Environmental Innovations

I. INTRODUCTION

Researchers and policymakers are becoming more and more interested in sustainable innovation and its connection with organizational performance. Moreover, stakeholders are becoming increasingly aware of sustainability in international business activities. It is, therefore, crucial to develop sustainable innovation to gain access to international marketplaces. Sustainable innovation can be understood as "innovation that improves sustainability performance, where such performance includes ecological, economic, and social criteria" (p. 2). Several researchers suggest that sustainable innovation is a basic requirement to enhance international business activities. However, much remains to be studied about the mechanisms that facilitate and enhance this relationship. To this regard, Boons et al. (p. 2) state that "while there is a considerable amount of knowledge on what drives sustainable innovation at the firm level, we know less about how sustainable innovations can be realized and how win-win business situations can be created for those involved while actually enabling sustainability at the level of production and consumption systems". Our study addresses this latter issue by analyzing the interaction of Management

Accounting and Control Systems (MACS), sustainable innovation, and international performance.

Management accounting and control systems (MACS) may be defined as part of the global information system, through which it is collected, processed, analyzed and communicated information (financial and nonfinancial, internal and external) used for planning, monitoring and control of different organizational activities, to optimize the use of resources, to support the process of decision making and to the performance evaluation process. In this way, the concept of MACS in use in this article expands the notion of management accounting systems to embrace the entire array of control mechanisms used by organizations (See Machintosh & Quattrone, 2010).

II. LITERATURE REVIEW

Management control is a process in which organization strives to achieve the planned or desired results, or "performances". In doing so, organizations may take various actions to minimize the negative effects arising from the external and internal environment. Management control represents a method for managing organizations performances.

Clearly relationship exists between management control and accounting, but there are fundamental differences too. For example, the goal of financial accounting is the summary reporting on companies performances. The information is primarily intended for external stakeholders and are prepared in accordance with accepted standards of financial reporting. On the other hand, the task of management control is to help managers of organizations to formulate key strategic objectives and plans and monitor their execution. In general, management control is an internal process. The techniques and tools used by management control are adapted to the specifics of each organization and are not subjected to any generally accepted standards.

On the other hand, there are also significant differences between management accounting (in particular cost accounting) and management control. Cost Accounting focuses on the measurement of costs in organizations. Management control is a broader concept than cost

accounting. Management control focuses on companies results, wherein costs are significant, but not the only measure of those results.

III. HYPOTHESIS DEVELOPMENT

The development of innovations in general or sustainable production processes in particular, does not necessary guarantee a direct impact on organizational performance. Commercialization has been generally considered as the last key step in the innovation process, and it need to be properly managed. Therefore, at this point there is a need for managerial tools that allow a firm to better exploit and appropriate the potential benefits from sustainable production. Specifically, a better understanding on the features, meanings and benefits of the innovative sustainable process is needed. It is also needed to understand the competitive environment.

According to the above discussion, organizations must align their strategies to include aspects related to innovation and marketing capabilities. Maletič et al. argued the potential synergies between sustainable innovation and MACS. From a sustainable innovation perspective, MACS allow the company to identify the stakeholders and their needs, measuring the progress towards organizational goals, and helping managers to “understand the current situation and the key issues they must address” (p. 186).

In this regard, sustainable production innovations allow firms to follow a differentiation strategy. Among other strategic priorities, differentiation strategy focuses on offering specialized product features that are valuable for costumers. To implement these strategies successfully, organizations need to have an accurate vision about the current competitive situation to persuade costumers about the features of the sustainable products. Nowadays, retailers and costumers demand relevant information on sustainability of products. This allows organizations to

obtain valuable and timely feedback about the evolution of those key features (e.g., customer service or distribution). Therefore market orientation becomes a key capability for new product introduction. Thus, benchmarking may play a significant role in responding to this need by supporting organizational learning. Benchmarking is a contemporary tool that facilitates managers to develop competitive analysis and to evaluate their competitive position in order to know how better satisfy customers. The objective of benchmarking is to learn from the experience of other successful firms. This information facilitates managers to understand what customers value and demand, and present the product/service in a way that addresses the existing gap. Therefore, benchmarking provides a clear focus for the new product marketing strategies.

Balanced scorecard is a tool connected with benchmarking that provides a balanced focus of financial (e.g., profits and returns) and non-financial indicators (e.g., customer satisfaction or production wastes) that supports the implementation of differentiation strategies. That is, balanced scorecard is a control tool that operationalizes and translates the strategy to all the agents within the company, providing them with procedures and cues to develop strategic priorities. Contrarily, traditional MACS, as cost accounting and budgets, are unlikely to support product differentiation strategies. Those tools are internally oriented and mainly emphasize on controlling costs. Thus, the information that traditional MACS provide does not generally suit the complex and diverse environment that involves a product differentiation strategy. Therefore, we formulate the following hypothesis:

H1: Contemporary MACS are more likely to have a positive moderator effect than traditional MACS on the relationship between sustainable production innovations and internationalization. Our research model is displayed in Figure 1

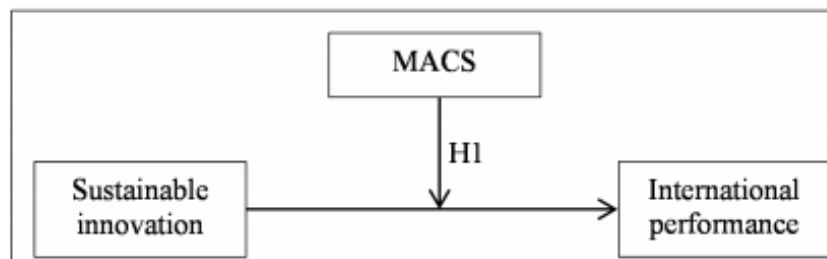


Figure 1. Research model.

IV. MODEL OF A MODERN LEADER CHARACTERISTIC

Generalizing the results of the research, we prepared a model of modern leader characteristics required in contemporary organization.

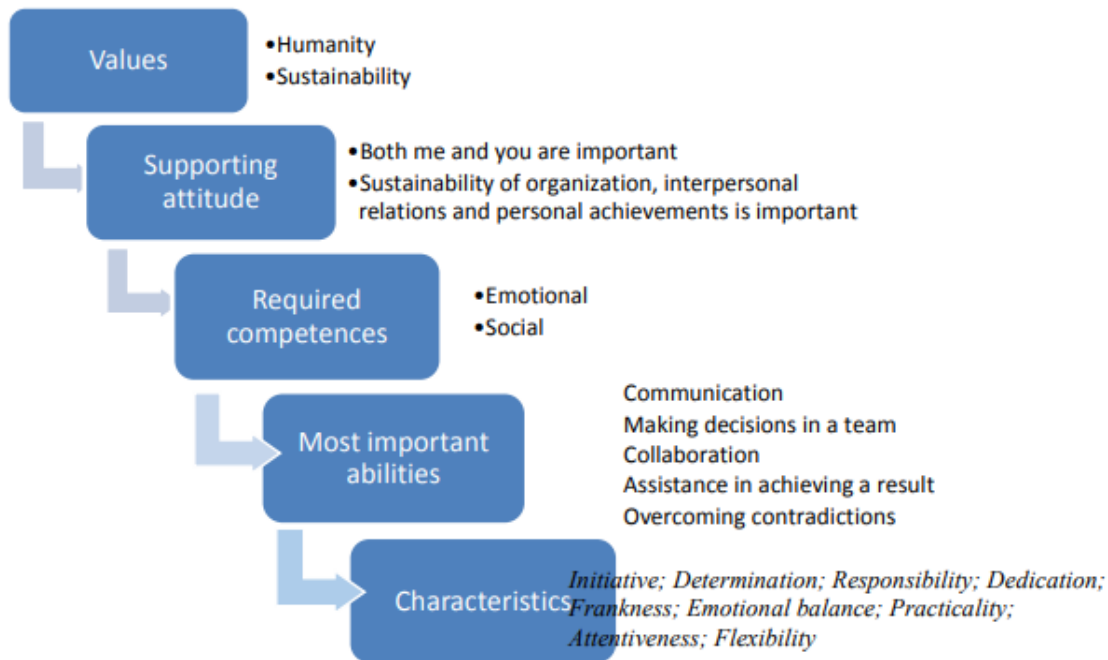


Figure 2: Model of leader characteristics required in contemporary organization

This model states that leaders abilities and competences are two reciprocally related variables that are directly influenced by the individuals professional characteristics and attitudes based on his personal values. This model is based on empirical insights, which allows using it as a guideline in developing leaders,, abilities and competences and specialists,, skills of leadership. Research shows, that only leader having specific values, attitudes, competencies, abilities and professional characteristics is able to overcome contemporary managerial challenges in nowadays organizations.

V. PROCESS OF MANAGEMENT CONTROL ELEMENTS

The process of management control can be represented by a planning and control cycle, as in Figure 1. The cycle consists of seven steps, of which the first five cover the planning process, and the last two steps are related to the control process. Planning is primarily a decision-making process. Control is implemented by means of measuring and correcting the results achieved, to ensure the realization of plans. The purpose of the planning is to prepare managers of organizations for action. The first step is to define the objectives. In relation to the objectives, managers need to define two components, namely: (i) the type of objectives and (ii) the level of the desired goals. The first role of planning, therefore, is to determine so-called

targeted objectives. The second role of planning is to predict how the organization can achieve the assigned targets. In steps 2-4 in Figure 3, organizations managers consider different strategies for achieving the planned goals, evaluate their effects and choose the best alternative. A time decomposing of selected long-term plans into annual plans or budgets is performed in step 5.

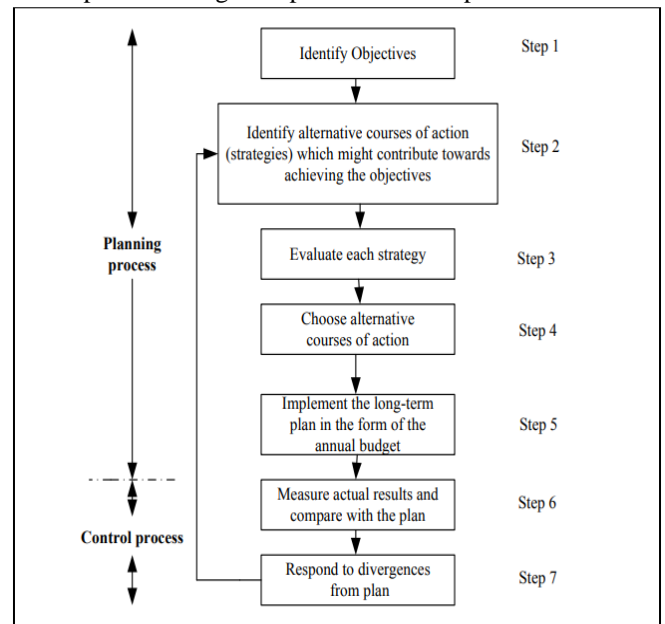


Figure3: Process of management control elements

The control includes the steps 6-7 in Figure 3. The measurement and comparison of achieved results with the original plan are performed in the first of these two steps. In the second step, corrective action is taken in order to achieve the desired objectives, or to correct the plan. Control without planning is impossible, and vice versa; planning without control serves no purpose. The process of control is not a linear process. The essence of control is not to "evaluate" whether the planned objectives have been achieved or not, but to monitor progress in achieving objectives. This progress is not determined at the end of the planning period, but rather during the implementation of the organizations plans.

VI. DISCUSSION AND CONCLUSIONS

Comparing the results of theoretical analysis and empirical research, parallels are seen. The researches of organizations emphasize that modern organizations cannot manage without a new attitude to manager's work. A manager must also be a leader these days. What is more, he must be a leader that is able to enable employees, motivate them to work and rally for collaboration. Scholars state that these strivings require the leader to possess high managerial competences based on high emotional and social intellect. The leaders of 48 empirically examined organizations from Lithuania also emphasized the importance of leaders' ability to collaborate, and potency to work in team because relations with other people are becoming much more important for successful business than 10 years ago. Thus, no gap between management theory and attitudes of survey participants was discovered.

The research allowed us to develop the model of leader's values, attitudes, competences, abilities and professional characteristics required in contemporary organization. This model states that leader's values, competences, abilities and professional characteristics are reciprocally related variables, and only coherence of all these variables could lead to management-in-organization success. Furthermore, the research enabled us to define the most important leader's characteristics in contemporary organization. These characteristics are initiative and activity, determination, attention to employees' needs, responsibility, dedication to the work, frankness, emotional balance, practicality, attentiveness and ability to listen, and flexibility. Also five general abilities and competences does a modern leader need in order for his company to be successful: ability to communicate, ability to make decisions in a team, ability to collaborate, ability to help the employees to achieve a result, and ability to overcome various contradictions. In addition, we found out that nowadays leaders' high social competence should be

understood as relevant. However, a particular group of academicians and practitioners held this relevant at all times. It seems that the biggest difference, when comparing periods of time is the proliferation of these attitudes. Therefore, the transformation from production economics (it can be expressed by a phrase "goal justifies means") to knowledge economics (it can be illustrated by a slogan "I know, it means I can") and finally to feeling economics (when an attitude that "what we are doing must no harm anyone and anything" settles) takes place invisibly but with determination. Discrepancy of these attitudes, different mental maturity in organizations and societies that are organized by the tools of public administration are exactly what, in our opinion, influences and will determine in the future the biggest difficulties and disagreements when striving for development and sustainability. It will require higher attention from the leaders of strategic and political level in organizations.

For the end, some limitations of a research methodology should be admitted. Our questions were given only to the leaders of a highest level at organization hierarchy, which could influence twofold aberrations in the results: a) only the opinion, i.e. beliefs and attitudes on the required modern managerial competences was expressed. It remains unknown how they unfold in practice; b) we cannot know how the discussed questions are seen by lower hierarchical level leaders, who actually lead particular employee groups. Nevertheless, given model of leader characteristics could show the nature and complexity of managerial competences, and research insights could serve as guide for managers' education.

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