

# **MANAGERIAL CHALLENGES OF MANAGEMENT CONTROL SYSTEM IMPLEMENTATION IN PUBLIC ORGANIZATIONS**

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## ***Introduction***

The control is an important function of managing process and comes to the track in the process and results of the performed activities and also to compare them with the aims and correct the deviations so that the relation

tasks could be in line with the planned ones [Flaszewska, Szymańska, 2012, p. 423]. It also plays an important role among the public finance sector units (hereinafter referred to as public organizations) on one hand, ensuring the

effectiveness and the efficiency of their operations, and on the other hand, allowing the assessment of efficiency of public funds.

The current legal requirement for public organizations is the obligation of full implementation of management control. In this situation, managers of these units have to face with many managerial challenges which connect with the need of certain changes in the management process implementation. Taking this into account, **the aims of the article** are to identify and assess the extent of the barriers and measures appeared in units and also activities made by managers during the implementation of management control in public organizations.

In the first part of the article the basic principles of implementation of management control system in public organizations are presented. In order to fulfill the aim of the article and to verify the hypotheses, own study with the method of document research on a sample of 151 public organizations were conducted

### ***Basic principles for the implementation of management control in public organizations***

Multidimensional specific of public organizations is expressed by certain characteristics which distinguish them from other units, in particular from private commercial ones. In a systemic perspective, these organizations are characterized by a „public access” of individual subsystems and their relations with the external environment [Kozuch, 2004, p. 96]. The present dimension is expressed by homing the specificity of their activities to deliver public goods that benefit society [Wolniak, 2008, pp. 68-71], to create legal and administrative provisions necessary for the functioning of the state, as well as the redistribution of budget revenues [Frączkiewicz-Wronka, 2009, p. 26]. In a subject perspective, these organizations are characterized by a form of ownership remaining under the state or local government control [Kozuch, 2007, p. 127]. K. Szymańska [2011, pp. 29-30] assumes, that the public character of the organization due to the specific relationship with the environment, outstanding aims and values and characteristic organizational structure.

Unlike to private units, basic aims and tasks of public organizations comes from the law [Krzyżanowska, 2000, pp. 12-13] and include, among others such areas as: public safety [Wieteska-Rosiak, 2011, pp. 78-81], health protection, economic and social infrastructure, social assistance, education, environmental protection, and to provide the legal and institutional governance [Kleer, 2005, pp. 271-290].

The specific composition of the property and aims configuration, functions and tasks performed by public organizations leads to a wide-ranking discussion and evolution of approaches to the management process of these units. In classical terms, it is connected with the theory of bureaucracy, high formalization, prioritizing and

centralization of the activities [Weber, 1972, pp. 317-334; Dandeker, 1990], with the strong orientation to the workplaces and the perception of administrative units rather in formalist-structural than in human terms [Supernat, 2003, pp. 28-46].

This approach evolved towards the so-named public management, whose roots date back to the American civil service reforms, in which were included first propositions of managerial approach to the public organizations [Gulick, Urwick, 1937]. Dynamic development of this trend in 80s. and 90s. of XX century led to replace it with a so-named New Public Management concept and to so-named Public Governance concept [Kowalczyk, 2008, pp. 4-13].

New Public Management concept seeks to introduce into the public sector market methods of management. Those methods are aimed to improve the economy, efficiency and effectiveness of units [Zalewski, 2003, p. 23]. Within its framework, the emphasis is on the introduction of professional management, clearly defined standards, measures and control of activity results and also in the introduction of competition in the public sector and discipline and efficiency in use the public resources [Hood, 1991, pp. 4-5]. In addition to this, the Public Governance conception covers various territorial levels, and by the opening of the relations between the public and private spheres, negotiation and network linkages, allows for the efficient activity of public organizations in terms of rising expectations and complexity of social forces [Jessop, 2007, pp. 6-7].

Management of public organizations, opposite to commercial ones, is much more determined by some external factors e.g. connected with political and legal environment. The current change, which is a part of the market approach to public management is an obligation derived from the provisions of Chapter 6 of [The Public Finance Act] and introduced from 1 January 2010 to **implement a management control system** in public organizations.

The management control means all activities undertaken to ensure that the objectives and tasks of the organization are realized in a manner consistent with the law, effective, efficient, cost-effective and on time. It originates with the process approach to management and relates primarily to coordinate the allocation of resources, increase of motivation and performance measurement [Maciariello, Kirby, 1994]. The important element of this control is the use of information from the financial accounting system [Giraud, Zarłowski, Saulpic, Lorain, Fourcade, Morales, 2011, pp. 6-7], as well as links between strategic planning and operational control [Aseł, 2009].

The purpose of the management control system is to provide manager's information needed in the decision making process, also in planning and evaluation of activity [Widener, 2007, pp. 757-788]. Though the communication development, management control influences also on the increase of employee motivation for continuous improvement and acting in the best units

interest and informing managers about potential risks [Chow, Shields, Wu, 1999, pp. 561-582]. These principles are reflected in the current Minister of Finance guidelines, according to which the implementation of management control system includes: internal environment, risk management, controls, rules of providing the information and communication and also monitoring and evaluation of the control system.

The obligation of implementation of management control system in public organizations rests with the managers of these units. In this situation they are faced with many **managerial challenges** related to the necessity of introducing changes in organization management [see more: Klimczak, Pikos, 2010, pp. 27-29]. These challenges can be defined as all situations, which make the necessity to take additional activities, not yet identified, far beyond the current situation and even not directly related to the specifics of the organization.

During the management control implementation process, these challenges are related to need to eliminate many of barriers stemming from inadequate previously used methods and tools of management. A major problem could be fulfilling the requirements in the risk management area, because most of the known methods of analysis and risk assessment derive from private organizations, in particular from the financial environment. This reasoning leads to the **hypothesis H1**: a major barrier to the implementation of management control in public organizations are deficiencies in the area of risk management.

Described challenges are the need to make many new activities form part of the guidelines laid down in the Minister of Finance Communication about the management control standards for the public sector. These actions modify the internal environment of the organization, rules of provision the information and communication, as well as control mechanisms. Their effect would be to secure the adequacy, efficiency and effectiveness of the management control focused on compliance with internal and external regulations, protection against the occurrence or effects of risk and the full achievement of objectives and tasks.

This means that full implementation of management control system in public organizations will require changes in attitude and scope of activity of managers of these units. Especially important is to take responsibility for the interests and implementation strategy of an organization, with the attention to the development of unit and moving away from the formula of strong government centralization to open management with adherence to rational principles, rules of ethics and commitment to the transparency of actions [Lachiewicz, 2007, pp. 171- 172]. An important role in this process will be played by active involvement of all participants of organizations, which is strictly connected with a number of actions in the field of human resources management, which should be made in organization. This leads to the formulation of hypothesis H2: one of the main areas in the implementation of management control activities are tasks

related to development and improve the managers and employees of public organizations.

### ***The research methodology and formal characteristic of examined documents***

In order to fulfill the aim of article and to verify the hypotheses, there are presented results of own research conducted **by using the method of documents research** made on a sample of 151 public organizations<sup>1</sup>. The research technique was the formal and content analysis of documents. The source of information were official papers "Statement about the state of management control" for the year 2011 and 2012 prepared by the managers of public organizations. The selection of units to the sample was made according to availability of documents. These documents were obtained from the Public Information Bulletin (BIP) in which public organizations provide the information required by law basics. The input was made to find for every unit the statement for 2011 and for 2012 (analysis was made on 302 documents). Pilot survey was conducted in January and February 2013, and the full survey was conducted in the period from April to July 2013.

The obligation to fulfill, submit and publish described documents comes from the regulations of the Public Finance Act and the unified model has been defined in the Regulation of the Minister of Finance about the model of statement about the management control system, which allows making comparisons between different public organizations.

The formal analysis indicated that the analyzed documents are divided into 3 sections. First is a summary and includes directly expressed statement of managers on the degree of implementation of management control in the organization. There is a choice of three options: control can be implemented sufficiently (fully equivalent to statutory requirements), confined (which indicates the need for further actions to its full implementation) or does not function at all. Indication that the management control system in unit is on sufficient degree relieves the fill of section II and III of document.

The second section has nature which is connected with identification and planning. Here are determines areas in which appeared deficiencies in the implementation of management control (in previous year) as well as planned activities which will be taken to improve the functioning of the management control with the deadlines of the implementation. Third section is about reporting, because it describes what actions have been taken (in previous year) to improve the functioning of the management control system.

### ***Results of empirical research conducted in public organizations***

Further work was carried out on the basis of the content of the examined documents. By using the information from the first section, there was made **scope**

**of implementation of management control** in the surveyed public organizations which were divided because of the nature of their tasks into: central institutions (14 ministries and 9 other units, such as Police, the National Health Fund), local authorities (7 district offices, 7 communes and 9 other units such as local labour offices), fiscal units (5 tax offices, 9 tax chambers and 4 tax inspection offices), courts (19 region courts, 5 district courts, 3 appeal courts and 2 prosecutor's regional offices), higher education institutions (19 universities, 6 technical universities, 8 academies and 9 state academic of higher vocational schools) and primary schools (9 elementary schools, 4 gymnasiums, 3 teams of educational institutions).

The results present that in all surveyed organizations in 2011 and in 2012 there was functioning adequate, efficient and effective management control, where in almost half of the units the control was implemented only in a defined degree, as show in Table 1.

The level of implementation of management control system did not change significantly during the surveyed period. But more detailed analysis shows a significant discrepancy scope of implementation of management control in the different groups of organizations. The highest level of functioning of management control is in local authorities units, in fiscal units and in primary schools. In central institutions, courts and higher education institutions more frequent the confined degree of implementation of management control process was identified.

On the basis of the content of the second section of the documents, there were identified barriers which are difficult for managers of the units with not yet fully implemented management control. Those barriers are related with deficiencies in the risk management area, human resources area, communication and circulation of documents sphere and in strategic management area. In

Table 2 there are presented detailed results of the survey.

Barriers in risk management concerned the deficiencies of established risk management policy or procedures, as well as incomplete implementation of system in relation to required standards. In the sphere of human resources management there are pointed out deficiencies in employees' professional development programs or recruitment and selection procedures. Barriers connected with communication and circulations of documents were related with delays and insufficient use of systems which role is to improve the information flow. For about 30% surveyed organizations, there were also highlighted barriers with the strategic management area including the lack of designated business plans, lack of well-defined objectives and measures to achieve them. For a better comparison the difference between the area of barrier for 2011 and for 2012 was presented in percentage points (p.p.). As it is assigned in table 2. difference is percentage for 2012 minus percentage for 2011.

The results indicate that throughout the analyzed period dominate (despite the downward trend) barriers in risk management area, which leads to the **acceptance of the hypothesis H1**. Whereas barriers in human resources area and barriers in communication sphere have growing importance.

On the basis of the content of second and third sections of the surveyed documents it was possible to determine actions planned and actually taken by managers of surveyed organizations to fully implement the management control. The results indicate that they generally correspond to identified barriers and relate mainly to risk management area, human resources improvements and actions in strategic management sphere. Table 3 shows the activities planned in 2011 (these were plans for the 2012), report on their implementation in 2012 and planned future activities related with implementation of management control.

**Table 1.** The scope of management control implementation in the surveyed organizations

Public organizations where the researches were made	Total	Public organizations where management control in 2011 was				Public organizations where management control in 2012 was			
		in sufficient degree		in confined degree		in sufficient degree		in confined degree	
		N	%	N	%	N	%	N	%
<b>Total</b>	<b>151</b>	<b>80</b>	<b>53%</b>	<b>71</b>	<b>47%</b>	<b>81</b>	<b>54%</b>	<b>70</b>	<b>46%</b>
In this:									
Central institutions	23	7	30%	16	70%	7	30%	16	70%
Local authorities	23	16	70%	7	30%	19	83%	4	17%
Fiscal units	18	17	94%	1	6%	14	78%	4	22%
Courts	29	10	34%	19	66%	13	45%	16	55%
Higher education institutions	42	16	38%	26	62%	15	36%	27	64%
Primary schools	16	14	87%	2	13%	13	81%	3	19%

Source: own study.

**Table 2.** Barriers to implementation of management control in the surveyed organizations

Area of barriers	2011	2012	Difference
Deficiencies in risk management	77%	64%	-13p.p.
Deficiencies in human resources management	18%	36%	18p.p.
Deficiencies in communication and circulation of documents	27%	33%	6p.p.
Deficiencies in strategic management	35%	31%	-4p.p.
Activities not corresponding with the law basics	31%	24%	-7p.p.
Deficiencies in resources protection	18%	16%	-2p.p.
Deficiencies in ethics	13%	10%	-3p.p.
Deficiencies in finance management	6%	9%	3p.p.
Deficiencies in informatics	10%	7%	-3p.p.
Deficiencies in organizational structure	1%	0%	-1p.p.

Source: own study.

**Table 3.** Activities planned and actually realized in order to implement management control in the surveyed organizations

Activities	Plans for 2012	Realization in 2012	Plans for future
Activities in risk management	75%	23%	60%
Overall improvement of managerial control	35%	22%	43%
Activities in human resources management	34%	20%	41%
Activities in strategic management	42%	17%	34%
Changes in organizational structure	10%	13%	13%
Activities in informatics	17%	13%	21%
Activities in protection of resources	15%	11%	16%
Activities combined with changes in law according to the law basics	30%	10%	26%
Self evaluation of managerial control	24%	10%	10%
Activities in ethics	8%	9%	14%
Activities in communication and circulation of documents	23%	8%	27%
Activities in financial area	6%	6%	16%

Source: own study.

The results present a very large discrepancy between the activities planned in 2011 and actually realized in 2012 for the implementation of management control. Only in two areas (organizational structure and ethics) there were made more activities, than planned a year before. The average level of divergence in other areas amounted 16%, with the highest level (more than 50%) of risk management area. In this sensitive area mostly taken action were connected with identification and analysis of risk, implementation of risk management procedures, adoption of risk management requirements to risk management organizations methodology or implementation of tools supporting risk assessment, for example Risk Manager Application. In this area planned activities concern of increased range of identification, assessment and compilation of risks occurring in the organization.

The activities undertaken in the human resources area related primarily to the implementation of the procedures of evaluation of employees, internal anti-mobbing and anti-corruption policy, individual programs of

professional employees development or guidelines in the qualification procedure. There were also organized many courses about the public orders, circulation of documents, functioning of public finance system and respect the discipline in this regard. In plans managers of surveyed organizations covered improvement of recruiting guidelines, delegation, communication between employees and development of human resources through the trainings. These results lead to **the acceptance of the hypothesis H2**, according to which one of the key area of activities carried out for the implementation of management control in public organizations is improvement of human resources.

In surveyed organizations there were planned and undertaken many activities in the strategic management area, which relief mainly on building strategy, creating mission, vision, objectives and measures to achieve them. Many organizations have also introduced organizational changes and carried about the overall improvement of management control the system through setting up teams responsible for various strategic areas of

activity or reviewing the instructions and internal regulations in terms of their relevance and fulfilment of standards of management control. A wide range of undertaken activities demonstrates the need for continuous improvement of management control process in public organizations.

## Conclusions

The aim of implementation of management control system in public organizations is to organize processes, ensure efficient, cost-effective, timely realization of objectives and secure the efficient use of public funds. The considerations presented in this article indicate that the obligations in this regard are the source of many managerial challenges for the managers of these organizations. In general, there are connected with the necessity of elimination the barriers stemming from inadequate previously use methods and tools of management, as well as making many new actions form part of the Ministry of Finance standards. On the basis of the results there were formulated following conclusions about the cognitive character:

1. The degree of implementation of management control system in surveyed organizations in not sufficient and specific concerns relate to the central institutions, which by the activities should set an example for other public units.
2. The main barriers of implementation of management control system are deficiencies in risk management area, which is connected with part adaptation of methods and tools to the required standards.
3. The implementation of management control system involves with the introduction of several changes in the management of public organizations. Managers plan many of such activities, but in fact they are realized in relatively small area. Some of them concern on the sphere of human resources management and includes the implementation of a number of solutions designed to improve and increase the involvement of personnel and employees into the management control process.

The implementation of management control system will undoubtedly influence on the development of management approach to managing public organizations. There will be very important role of managers at different levels and also involvement of employees, which will be the subject of further research conducted by the authors.

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## Endnote

<sup>1)</sup> The research was funded from National Science Centre fund allocated of the decision number DEC-2012/07/N/HS4/00274 and covered the whole country.

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### ***Menedżerskie wyzwania wdrażania kontroli zarządczej w organizacjach publicznych***

#### **Streszczenie**

Jako cel artykułu wyznaczono identyfikację i ocenę zakresu występowania barier oraz działań podejmowanych w procesie wdrażania kontroli

zarządczej w tego typu organizacjach. Zaprezentowano następnie wyniki badań własnych, przeprowadzonych z wykorzystaniem metody badania dokumentów na próbie 151 jednostek sektora finansów publicznych. Źródłem informacji były oficjalne dokumenty pt. „Oświadczenie o stanie kontroli zarządczej” za rok 2011 i 2012 składane przez naczelne kierownictwo tych jednostek. Wyniki wskazują, iż we wszystkich badanych instytucjach funkcjonowała w 2011 i 2012 roku adekwatna, skuteczna i efektywna kontrola zarządcza, przy czym niemal w połowie jednostek była ona wdrożona jedynie w stopniu ograniczonym. Na podstawie treści działu drugiego badanych dokumentów zidentyfikowano następnie bariery, z jakimi boryka się kierownictwo podmiotów, w których nie wdrożono jeszcze w pełni kontroli zarządczej. Wyniki wskazują, iż w całym analizowanym okresie zdecydowanie dominują (mimo tendencji malejącej) bariery w sferze zarządzania ryzykiem. Dostrzeżono bardzo dużą rozbieżność pomiędzy działaniami planowanymi w 2011 roku, a faktycznie zrealizowanymi w 2012 roku w celu wdrożenia kontroli zarządczej, przy czym największy poziom (ponad 50%) występuje w obszarze zarządzania ryzykiem. W analizowanych jednostkach podejmowane były także działania w sferze zasobów ludzkich, jak wskazano w artykule. Na podstawie wyników badań można stwierdzić, że dotyczyły one przede wszystkim wdrażania procedur oceny pracowników, wewnętrznej polityki antymobbingowej i antykorupcyjnej, indywidualnych programów rozwoju zawodowego pracowników, czy też wprowadzania wytycznych w procesie postępowania kwalifikacyjnego w stosunku do kandydatów do pracy.

#### ***Słowa kluczowe***

kontrola zarządcza, zarządzanie publiczne, administracja publiczna