

# MANAGEMENT CONTROL, ETHICS AND THE FUTURE OF CORPORATIONS

ŠLJIVIĆ Slavoljub<sup>1</sup>, SKORUP Ana<sup>2</sup>, STALETOVIĆ Maja<sup>3</sup>

<sup>1</sup>Higher Business School of Vocational Studies "Prof. Dr. Radomir Bojković" Krusevac (SERBIA)

ORCID 0000-0003-4864-326X

<sup>2</sup>Higher Business School of Vocational Studies "Prof. Dr. Radomir Bojković" Krusevac (SERBIA)

ORCID 0009-0001-6791-3504

<sup>3</sup>Higher Business School of Vocational Studies "Prof. Dr. Radomir Bojković" Krusevac (SERBIA)

ORCID 0000-0002-2903-498X

e-mails: [sensa037@gmail.com](mailto:sensa037@gmail.com), [ana.skorup@visokaposlovnaskola.edu.rs](mailto:ana.skorup@visokaposlovnaskola.edu.rs), [maja.staletovic@visokaposlovnaskola.edu.rs](mailto:maja.staletovic@visokaposlovnaskola.edu.rs)

## ABSTRACT

*At the level of definitions, there is a close connection between ethics and management control. However, in theory and practice, this is not the case. The main question is: why is this so? This paper investigates the relationship between ethics and management control in corporations, focusing on the points of contact and the limitations that hinder a closer connection. The relationship is analyzed within the framework of agency theory and modern approaches to management control. The aim of the paper is to examine the possibilities for creating an effective trust-based management control system, which would align with the essence of proposed reforms of corporations and capitalism in general.*

*The research results showed that the existing management control systems, both within themselves and in the context of the default values of capitalism, cannot be transformed into trust-based management control systems. Ethics is separated from management control by strong barriers, either due to the influence of agency theory and the concept of shareholder primacy, or due to the limitations of modern approaches in integrating all elements of reality.*

*Designing a trust-based control system will be possible once controversial discussions on ethics and capitalism are reconciled at the level of the state and regulatory bodies. This is necessary for institutionalizing a new corporate purpose and revised understandings of ownership and responsibility.*

**Keywords:** management control, ethics, corporate governance, trust.

**JEL:** G30, M21, M41

**DOI:** 10.5937/intrev2501013S

**UDC:** 005.72:174

005.62

**COBISS.SR-ID** 172791049

## INTRODUCTION

The British Academy of Humanities and Social Sciences has undertaken one of the largest and most ambitious programs in its history, focusing on the future of capitalism, the future of humanity, and the future of our planet. The program was implemented through two reports published during 2018–2019. The first report, titled *Reforming Business for the 21st Century*, presents arguments for urgent business reform in order to address major social, political, and environmental challenges of the global world, and to harness the benefits of technological and scientific progress. This report served as the foundation for another, titled *Principles for Purposeful Business*. The reports cover all forms of business: public and private companies, small and large enterprises, etc. In a very short time, these topics attracted the general interest of the public, including investors, business leaders, prominent analysts, and others.

A major theme of the *Reforming Business for the 21st Century* report was the reformulation of corporate purpose. The new corporate purpose should reflect the corporation's reason for existence and serve as its starting point. Profit should be a consequence of the corporation's purpose, not an end in itself. To achieve this, it is necessary to restore trust between corporations and other stakeholders. The essence of the new corporate purpose should be to solve the problems of people and the planet in a profitable way, not to profit by creating problems for others.

Defining a new corporate purpose, however, is only the first step toward creating modern corporations capable of meeting the challenges of the 21st century. This is why the second report proposes principles for purposeful corporate operations. These principles are grouped into four categories: (i) law and regulation; (ii) ownership and governance; (iii) measurement and performance; and (iv) finance and investment. The principles are interconnected and interdependent. They can be applied in different business sectors, in various locations, and across business models of different sizes [1].

There is no general consensus on the proposals from both reports. The points of contention among the academic and professional public can be reduced to three main themes: ownership, accountability, and capital markets [2].

The controversial topics discussed above can be viewed from both "macro" and "micro" perspectives. From a macro perspective, the core issue is connecting ethics and capitalism, which falls under the domain of *Stakeholder theory*. From the micro perspective, which is the focus of this paper, the issue concerns linking ethics and management control within corporations. This is particularly relevant because future corporations are expected to be trustworthy, purposeful, and guided by developed ethical cultures. Trustworthiness is built on long-term trust among stakeholders. Trust is related to organizational justice, understood as employees' perception of fairness in the workplace. Justice and fairness depend on standards that govern morally right and wrong behavior in organizations — the domain of (business) ethics. Management control serves to ensure that employees act in the best interest of the organization.

It would be logical for ethics and management control to be closely related fields. In theory and practice, however, this is not the case — at least not to the extent required by the aforementioned reforms. Management control is a socially constructed artifact, designed by people. It is also a reciprocal activity, wherein one group of people seeks to exert control over another. For those "other" groups, the design of management control represents a real social context to which they react in various ways. This interaction between (rational) design and real social context is precisely what makes the study of management control systems challenging [3]. Individual reactions may align with corporate goals, but they may also be dysfunctional — rendering management control ineffective. For decades, corporations have witnessed ambiguous relationships between organizational justice and fairness, morally right and wrong behavior, self-control rights, and lack of responsibility for others. Therefore, today's corporations are entities with the potential to create immense wealth and prosperity — but also inequality and suffering [2]. Thus, at the micro level, the relationship between ethics and management control has become more relevant than ever.

This paper explores the relationship between ethics and management control in corporations, their points of contact, and the limitations preventing a closer connection. The analysis is conducted within the framework of agency theory and modern approaches to management control. The aim is to examine the possibilities for creating an efficient trust-based management control system that aligns with the spirit of proposed reforms.

The paper is structured into eight sections. Following the introduction, the second section presents the research framework — including key research questions, hypotheses, and methodology. The third section

defines and describes the basic characteristics of management control, ethics, and related concepts used in the paper. The fourth section provides a brief literature review on ethics and management control. The fifth section addresses agency theory and the roles of management control and ethics in achieving goal congruence. The sixth section evaluates three well-known management control systems against the criterion of reality: Simons' Levers of Control Framework; Kaplan and Norton's Balanced Scorecard; and Ferreira and Otley's Performance Management Systems. The seventh section summarizes arguments for accepting or rejecting the proposed hypotheses. The eighth section provides the conclusion.

## KEY RESEARCH QUESTIONS, HYPOTHESES AND METHODOLOGY

At the level of definitions, there is a close connection between ethics and management control. Ethics deals with the study of "right" and "wrong" behavior. Management control serves similar purposes, i.e., ensuring that employees act in the best interest of the organization. However, in theory and practice, ethics and management control are not so closely related — at least not to the extent required for reforming modern corporations. The first research question is: Why is this so?

The immediate and natural connection between ethics and management control is achieved in the area of goal congruence. Goal congruence is the most important criterion for evaluating the effectiveness of a management control system. A lower or higher degree of goal congruence results in a lower or higher efficiency of management control, respectively. Ethics interprets these possible states of goal (in)congruence as causes or consequences of right or wrong organizational behavior.

Goal congruence refers to a situation in which the goals of agents match, or are in agreement with, the goals of the principal. Therefore, goal congruence is a key part of agency theory. Consequently, agency theory bears much of the responsibility for the convergence — or lack thereof — between ethics and management control. Agency theory addresses goal congruence primarily in favor of the interests of the principal or owner. In doing so, it promotes the concept of shareholder primacy — a form of corporate governance that focuses on maximizing shareholder value before considering the interests of other stakeholders, such as employees, customers, the community, and society as a whole [4].

Hypothesis H1 reads: Agency theory and corporate governance based on shareholder primacy are the main constraints to a closer connection between ethics and management control. The main reasons for this are the abstract assumptions on which agency relationships in corporations are based and the conventional understanding of ownership and responsibility, which is increasingly losing significance in modern theory and practice.

The concept of shareholder primacy cannot be easily dismissed. It is deeply embedded in mainstream management control literature. Most of the building blocks of mainstream literature — such as budgeting, performance measurement, reward systems, etc. — are based on the concept of shareholder primacy [5; 6]. On the other hand, modern approaches have emerged, developed on the basis of criticism of mainstream literature and enriched with multidisciplinary knowledge. These approaches increasingly emphasize the importance of ethics for the further development of management control.

Therefore, another research question arises: Can these modern approaches remove the barriers to a closer connection between ethics and management control? If the answer is affirmative, conditions could be created for designing a more efficient management control system — one that is based on trust, rather than shareholder primacy. Unfortunately, there is no *a priori* affirmative answer to this question. The literature that explicitly addresses the relationship between ethics and management control is limited and cannot resolve this dilemma. It mainly emphasizes the importance of ethics and related concepts in solving isolated, specific ethical problems within corporations. Thus, this literature remains fragmented and lacks a systematic reflection on the role of ethics in building a trust-based management control system.

The assessment of the ability of modern approaches to achieve a closer connection between ethics and management control can only be determined on the basis of clear criteria. In this paper, the criterion of reality is used. Reality can be described as the integration of four elements of human life, namely: (i) facts; (ii) logic; (iii) values; and (iv) communication [7]. Management accounting and management control produce valid results only if they integrate all four elements of reality. Below follows a broader explanation of the mentioned elements.

*The facts.* Facts are a category of reality. Reality is always some form of interaction between individuals or organizations and the world in which they live. Facts should be distinguished from fictions or illusions, as the latter involve no connection, or an incorrect one, between the actor and the world. Reality and the world do not have the same meaning, which implies that the world is not a simple "sum" of facts.

*Logic.* Facts alone do not constitute reality. What is also necessary are opportunities. Without opportunities, the individual or the organization has no future. Logical thinking is the only way to recognize opportunities. Leaders and managers are responsible for logically identifying the opportunities available to the company, its employees, and other stakeholders.

*Values.* Various opportunities exist. The choice among them is based on values. In general, values are a person's motivating force — what drives them to choose what is good or more valuable over what is less valuable. Values transform a person's will and energy into action. When these attitudes toward value are transferred to the field of organizations, it becomes clear that leaders and managers play a significant role in recognizing and respecting the values of employees. If such a scenario were realized, employees could demonstrate significantly greater commitment and motivation to achieve not only personal interests, but also the goals of the organization as a whole.

*Communication.* It is quite clear that without communication there is only individual reality. Companies and institutions are based on socially organized reality. Without this condition, companies and institutions could not exist. Communication involves the use of language. In this way, cooperation between people is enabled, and managers gain access to the knowledge and thoughts of their employees [7].

The reality criterion is applied to evaluate three well-known management control systems, namely: Simons' Levers of Control Framework; Kaplan and Norton's Balanced Scorecard; and Ferreira and Otley's Performance Management Systems.

Hypothesis H2 reads: Despite indisputable contributions in many areas, modern approaches to management control do not meet the criterion of reality. This is because, in their research, at least one or more elements of reality are often abstracted and/or observed in isolation. Due to the incomplete integration of these elements, some important ethical issues are not included in the design and use of the management control system.

Several research methods are used in this paper. Descriptive analysis is presented in the sections dealing with definitions and characteristics of management control, ethics, and other related concepts, as well as in the literature review. The inductive method is used in the discussion of agency theory. Causal and comparative analysis is applied to evaluate modern management control systems based on the reality criterion. Synthesis is used in the discussion of accepting or rejecting the hypotheses.

## **ON MANAGEMENT CONTROL, ETHICS AND RELATED CONCEPTS**

Management control is an approach that enables companies to achieve desired results by taking actions to prevent negative effects from the external and internal environment. These actions are carried out progressively over time, i.e., before and after the completion of business activities. Therefore, management control is simultaneously a process and a method for managing company performance [8; 9].

The design and use of management control in organizations is highly dependent on contextual factors. Without attempting to provide a comprehensive list, only the most important of these factors will be mentioned here: the nature and purpose of the organization; strategy; organizational structure and size; national culture; managerial styles; and stakeholder expectations. In light of contextual factors, the design and implementation of an optimal management control system remains a current and controversial topic in the literature [10].

Ethics, or moral philosophy, involves the systematization, defense, and recommendation of concepts of right and wrong behavior. Ethics is usually divided into three general areas: metaethics, normative ethics, and applied ethics.

Metaethics examines the origin and meaning of our ethical principles. Are these principles a matter of social invention, or do they involve something more than individual emotions? Compared to normative and applied ethics, metaethics is the least precisely defined area of moral philosophy.

Normative ethics addresses the achievement of moral standards that regulate right and wrong behavior. The golden rule of normative ethics is: Do unto others as you would have them do unto you. Normative ethics develops in three distinct directions: (i) theories of virtue; (ii) duty theories; and (iii) consequentialist theories. A broader discussion of these directions is beyond the scope of this paper.

Applied ethics involves the analysis of concrete, controversial moral issues. In recent times, topics within applied ethics have been systematized into distinct fields, forming areas such as: medical ethics, business ethics, environmental ethics, etc. [11]. For an issue to be considered a matter of applied ethics, two conditions must be met. First, the issue must be controversial, meaning that significant groups of people are both "for" and "against" it. Second, the issue must be strongly moral in nature. Many sensitive and controversial topics in the world may be more appropriately addressed through social policy rather than categorized as applied ethics issues [12].

From the perspective of this paper, business ethics is a particularly important branch of applied ethics. By definition, business ethics studies standards of morally right and wrong behavior in business. It addresses potentially controversial practical topics such as corporate governance, insider trading, corporate social responsibility, fiduciary duty, and more. Business ethics influences a company's reputation by strengthening employee integrity and building trust among various stakeholders. For this reason, many organizations implement business ethics programs for their employees. However, the quality of these programs varies significantly [13; 14].

Organizational justice is defined as employees' perception of fairness in the workplace. Organizational justice is classified in the literature into four categories: distributive justice; procedural justice; informational justice; and interpersonal justice. Distributive justice reflects perceptions regarding the fairness of results, or outcomes. Procedural justice refers to perceptions regarding the processes that lead to these outcomes. Informational justice refers to statements or reports on events that are related to justice. Finally, interpersonal justice deals with perceptions about interpersonal relationships. In a broader sense, the concept of organizational justice is increasingly concerned with employee reactions to the implementation of corporate social responsibility [15; 16].

Corporate governance includes a set of rules, practices, and processes by which an enterprise is directed and controlled. Corporate governance harmonizes the interests of various stakeholders such as: shareholders, managers, customers, suppliers, financiers, government institutions, etc. Corporate governance is aimed at achieving the organization's goals and is therefore represented at all hierarchical levels. At the top of the hierarchy is the board of directors. The board of directors makes important decisions regarding the creation of the organization's vision and mission, its goals, strategies, and plans, etc. Good corporate governance helps organizations build trust with investors and the community [13].

Corporate Social Responsibility is the company's commitment to manage the social, environmental, and economic effects of its operations in a responsible manner and in accordance with public expectations. Corporate social responsibility is an integral part of corporate governance and accordingly affects every aspect of the organization's operations, from human resources and supply chains to employee health and safety. Some aspects of corporate social responsibility may be mandated by law, while others are voluntary. Many organizations publicly disclose information on social responsibility results as part of regular annual reports [17].

## LITERATURE REVIEW

The financial scandals that have shocked the world in recent years have to do with problems in managerial behavior, namely "excessive salaries and scandalous frauds". Conventional solutions to this problem exist. However, such solutions can easily produce the effect of an "illusion of control". This effect stems from the belief that everything can be monitored and controlled. Formal control mechanisms should serve this purpose. Many authors, however, warn that no formal control system is safe. In the language of agency theory, an individual is never a perfect agent for anyone else. The problem is much deeper; it reaches the question of whether and how thinking about people as members of an organization should be changed.

People have their own values, which can be divided into technical and moral values. Technical values are the potential that is given to every person, in terms of their intelligence, knowledge, business skills, etc. Each individual aims to realize, i.e., actualize, their development potential through appropriate actions. Moral values are those values that make a person a better person. Generally speaking, people are

responsible for their own actions and personal development. However, there are nuances; people are always responsible for their moral values, or the devaluation of those values. On the other hand, people are not always responsible for their technical values, or their devaluation.

Acting on the behavior of individuals, management control systems necessarily contain an ethical dimension. If the alignment of employee goals and organizational goals is based only on explicit, i.e., monetary incentives, then there is a danger of depersonalization of people. The system of monetary rewards and punishments often ignores the natural desire of people to actualize themselves, i.e., to realize their development potential. This is particularly evident when the actualization of individuals is not in accordance with the goals of the organization. Employees cannot realize their technical and moral values, which is why personality depersonalization occurs. Such a management control system is ethically unacceptable [18].

The Institute of Management Accountants (IMA) has given a practical definition of ethical behavior. This definition includes important principles such as: honesty; fairness; objectivity; responsibility, etc. Failure to adhere to these principles may have various disciplinary consequences. A greater degree of connection between ethics and management control can be achieved through a program that would contain carefully selected topics or modules. Many organizations organize specialized courses on business ethics and management control. The problem, however, is that topics from these areas are developed and presented independently of each other [19].

In recent literature, there are papers that empirically investigate the relationship between the management control system and the perception of organizational justice, or organizational fairness. Organizational justice is understood as the fairness that employees perceive regarding work relations in the organization.

The basic assumption of the research is that the management control system affects the perception of organizational justice through the four most important dimensions, namely: (1) participation of managers in setting goals; (2) application of the principle of controllability; (3) quality of feedback; and (4) use of multiple performance measures. The key question is which of the mentioned dimensions increase the perception of organizational justice and reduce the opportunities for unethical behavior of managers? The answer to this question has great practical importance. This is because management control is related to all categories of organizational justice: distributive, procedural, and interactional justice.

The results of the empirical research showed that of the four main dimensions of the management control system, only feedback increases the perception of organizational justice and reduces the space for unethical behavior of managers. The remaining three dimensions of the management control system do not have a direct and significant impact on the perception of organizational justice [20].

Organizations can be identified as ethical or unethical based on their ethical culture. Some authors define the ethical culture of an organization as a part or subset of organizational culture. An ethical culture establishes and maintains standards of correct behavior and actions worth doing. It represents the shared beliefs about ethics of the members of the organization. As such, ethical culture concentrates on leadership and the role of managers in promoting ethical behavior and preventing unethical behavior in the organization [21].

During the last two decades, the attention of researchers is increasingly occupied by new organizational forms. From the point of view of management control, a particularly interesting type of organization is the so-called "external hybrids". Management control systems in external hybrids are no longer limited by the legal framework in which such organizations operate. Management control needs extend beyond these frameworks to include supply chains and networks of organizations. In such conditions, not only formal but also informal controls are needed. Within the framework of informal controls, the idea of the importance of trust between collaborating parties is developed. In hybrid relationships, a high level of trust is expected to reduce management costs. The question of trust is very important for the development and implementation of the management control system design in the future [3].

## AGENCY THEORY: GOAL CONGRUENCE, MANAGEMENT CONTROL AND THE ROLE OF ETHICS

Agency theory is a principle used to explain and resolve business relationships between principals and their agents. In a broader sense, an agency relationship is any relationship between two parties in which one of them (the agent) represents the other (the principal) in everyday transactions. Principals transfer, or delegate, decision-making authority to agents. Agents very often make decisions that have financial consequences for the principals, which can lead to differences in priorities and interests between the two parties. In management accounting and management control, two types of agency relationships are significant, namely between owners and top managers, as well as between top managers and mid-level managers.

Agency theory starts from the assumption that relations between principal and agent are not always aligned. This situation is called the principal-agent problem. Agency theory deals with disputes that most often occur in two areas: differences in goals and differences in risk aversion. Disputes between principals and agents lead to the so-called agency losses. It is the amount of return that the principal claims was lost because the agent acted contrary to the principal's interests. These disputes can be resolved using various incentive schemes. The last and least desirable option for the manager is the termination of the contract by the principal [13].

Eugene F. Fama and Michael C. Jensen are the originators of agency theory. In their seminal work *Separation of Ownership and Control*, Fama and Jensen describe organization as a nexus of written and unwritten contracts between owners of the factors of production and customers. In every organization, two types of contracts are the most important: (i) contracts that determine the rights of the owner, or the so-called residual creditors, who are also the main risk bearers; and (ii) contracts that determine the decision-making allocation process among agents. These two types of contracts differ from organization to organization and ultimately decide which ones can survive and which ones do not.

In complex organizations, there is dispersed ownership [22]. In such conditions, it is not economically profitable for a large number of owners or residual creditors to be involved in decision control. This is why there is a separation of ownership and control. Agency problems arise when the managers who initiate and implement important business decisions are not the main residual creditors at the same time. If there is no effective control, then managers are more likely to take actions that deviate from the interests of the owners. The benefits of separating the decision-making function from residual risk-bearing generally outweigh the agency costs they create. Therein lies the survival value of complex organizations, such as corporations, large professional partnerships, financial institutions, and nonprofit organizations [23].

Goal congruence is a concept related to agency theory. According to agency theory, goal congruence is a situation in which the goals of the agents coincide with the interests of the principal [24]. Management control systems are the basic instruments used for this purpose. The effectiveness of the management control system is evaluated on the basis of the achieved degree of goal congruence between agents and principals.

In this regard, contemporary literature tries to answer the question: In what way do shareholder rights encourage greater responsibility of the controller? Shareholder rights are a set of legal rights that shareholders enjoy in relation to the companies in which they invest. Strengthening shareholder rights to increase controller accountability is an important issue for two reasons. First, without sufficient accountability, managers and dominant shareholders can use power to pursue their own interests at the expense of outside investors. Second, the strengthening of shareholder rights may result in the neglect of the interests of other stakeholders, which may also lead to a misallocation of the corporation's resources. Therefore, it is important that shareholder rights and their influence are carefully calibrated through appropriate institutional channels. Those channels are: voting method; settlement of court disputes; and market formation of prices. The aforementioned institutional channels exist to increase the pressure on managers to concentrate on maximizing shareholder returns. In this way, the concept of "shareholder primacy" is realized in practice [25].

Agency theory has experienced numerous criticisms over the past years. Criticisms mostly refer to the simplified and schematized assumptions on which agency relations are based, for the sake of their easier mathematical modeling. Namely, the principal and the agent behave economically rationally, in the sense that each party tends to maximize its utility. Information asymmetry exists because the agent, or manager, has superior knowledge compared to the principal, or owner. Both are familiar with the other's preferences. Therefore, the principal should create a contract that induces the agent to choose behavior that maximizes not only his personal utility, but also shareholder returns. In this way, the problems of moral hazard and negative selection are avoided [7].

At the basis of agency theory, questions of ownership and responsibility are interwoven. When it comes to ownership, agency theory relies on the conventional interpretation of capitalism. Namely, capitalism is an economic system of private ownership of the means of production and their use for profit. In this context, property is a bundle of property rights that gives its owners strong forms of authority. As for responsibility, it concentrates on the role and obligations of the boards of directors towards the owners, that is, the shareholders.

In recent times, the conventional understanding of capitalism has been seriously questioned. Some authors argue that the current interpretation of ownership is neither theoretically justified nor practically relevant. The conventional point of view, according to which control rights are automatically assigned to the holders of financing, i.e., to business owners, no longer stands. In essence, the problem is not ownership *per se*, but the need and desire to equate it with property rights without the responsibility of trusteeship.

There are fundamental differences between agency theory and the trusteeship approach. According to agency theory, the board of directors is an agent that manages the corporation in the interest of its owners. The trusteeship approach emphasizes that the board of directors governs for the benefit of all parties in whose interests the corporation was founded. Shareholders are one — but only one — party in this regard. The management rights of shareholders should be considered along with the rights of employees, customers, suppliers, communities, and future generations [2].

The above positions are in line with the so-called stakeholder theory. For more than three decades, this theory has served as a narrative for understanding and solving three interrelated problems: (i) how value is created and traded; (ii) linking ethics and capitalism; and (iii) how to help managers solve the first two problems [26].

One of the main claims of agency theory is that incentive contracting and delegation of authority are jointly determined. Does this statement have a universal character, or are there deviations when it comes to different cultural regions? One empirical study dealt with this question, using data from three Western cultural regions: Anglo (Australia, England, Canada); German (Austria, Belgium, Germany); and Nordic (Denmark, Finland, Norway, Sweden). The study showed that the process of goal alignment is different in different cultural regions. Therefore, one should be careful in making any generalizations on this topic [27].

Perfect goal congruence does not exist in this imperfect world. Therefore, according to Anthony and Govindarajan, management control systems should at least "not encourage individuals to act against the best interests of the organization". The inclusion of justice and fairness in the design and use of the management control system would contribute to increasing, or at least maintaining, goal congruence over time.

There are two types of justice: (i) formal justice, which refers to *ex ante*, objective aspects based on rules; and (ii) informal justice, in terms of the specific way in which the management control system is used. On the other hand, fairness refers to perceptions of the *ex post* consequences of management control and how it is used.

The design of the management control system can be formally just or formally unjust. Similarly, the use of management control systems can be informally just or informally unjust. Practically, it is a square matrix in a 2x2 format. Combinations of this matrix indicate four possible states, two of which are stable and two unstable. The two stable states can be called "maximum" and "minimum" goal congruence. The two unstable states can be labeled as "occasional" and "perverse" goal congruence. Each of these two unstable states can evolve toward one of the two stable states.

The maximum goal congruence of individuals and the organization is a combination of a formally just design of the management control system and its just use. When justice is present in design and decision-making, people identify with their organization. Maximum goal congruence logically leads to greater fairness in terms of consequences, i.e., results.

Occasional goal congruence is an unstable condition in which many companies find themselves. This situation represents a combination of a formally unjust design of the management control system and its informally just use. Managers who act justly can transform a system into a formally just one by changing those parts of it that have proven to be formally unjust. The result of such actions can be an evolution toward a stable state — i.e., toward maximum goal congruence.

Perverse goal congruence is another type of unstable state. This condition is present when the management control system is formally just, but is used in an unjust manner. This can lead to the so-called dysfunctional learning. Namely, empirical research shows that when employees suffer injustice, their first

reaction is to seek a change in the "unjust" control system. Dissatisfied workers usually demand the introduction of stricter rules in the management control system. As a result, the system becomes more complex and rigid, and mistrust increases even more. Goal congruence loses its meaning in such conditions. Consequently, the organization slides toward a stable state of minimal goal congruence.

Minimum goal congruence is a steady state in which the management control system is both unjustly designed and unjustly used. In such conditions, employees cannot identify with the organization at all. The organization generally becomes an unjust place to work. Employees then have two options: (i) to leave the organization, or (ii) to try to survive in it, isolating themselves from their environment.

The conclusion is that goal congruence between individuals and the organization as a whole can be achieved at different levels, depending on the (un)just design and (un)just use of the management control system [28].

Reducing goal congruence to only quantitative, financial variables — often with complete neglect of other variables — is a serious simplification of reality. People's motives are much broader and include more variables. In this context, the concept of informal justice and its use in the process of management control comes to the fore. Informal justice can solve problems that arise due to inconsistency of goals in the area of quantitative variables, as well as in the area of other, qualitative variables [29].

It is generally considered that the performance measurement system represents a good instrument of management control that companies use to achieve goal congruence. In practice, however, there are sometimes "noises" in the relationship: performance measures – evaluation – rewarding. Socialization is one way to overcome this problem. Socialization is a learning process through which employees gain knowledge about the goals of the organization, the power structure, their specific tasks, etc. There is no direct, but rather an indirect, connection between goal congruence and socialization. The positive indirect impact of socialization is reflected in employees' perceptions of reduced risks regarding their own careers [30].

Different elements of the management control system, as well as their combined use, can create tensions in organizations — for example, tensions between planned and realized strategies, or between employees' personal interests and their desire to contribute to organizational goals. An effective system of management control requires balancing these tensions. A large number of papers in this area rely on Simons' system of management control, known as levers of control [31]. Simons' management control system will be discussed in more detail in the next section of the paper.

## **REALITY AND MANAGEMENT CONTROL RESEARCH: AN ASSESSMENT**

The validity of any scientific work is evaluated based on whether it expresses, i.e., represents reality. Research in the field of management accounting and management control produces valid results only if it integrates the four elements of reality: facts, logic, values, and communication [7]. In this section, the validity of three well-known management control systems is evaluated. These are: (i) Simons' Levers of Control; (ii) Kaplan and Norton's Balanced Scorecard; and (iii) Ferreira and Otley's Performance Management Systems.

## **LEVERS OF CONTROL FRAMEWORK**

Robert Simons proposed the Levers of Control Framework as a tool for implementing and managing business strategies in 1995. Simons' Framework includes four basic concepts, namely: (i) core values; (ii) risks to be avoided; (iii) critical performance variables; and (iv) strategic uncertainties. Each of these concepts is managed by a single lever, or control system. For example, core values are managed through the belief system. Risks to be avoided are influenced by the boundary system. Critical performance variables are managed through the diagnostic control system, while strategic uncertainties are controlled by the interactive control system [32].

Simons' Levers of Control Framework had a significant influence on the further development of management control theory. Recent literature attempts to clarify certain ambiguities regarding terminology and definitions in Simons' work, as well as to expand the framework itself. The presentation below elaborates on these issues. An expanded version of Simons' Framework is shown in Fig. 1:

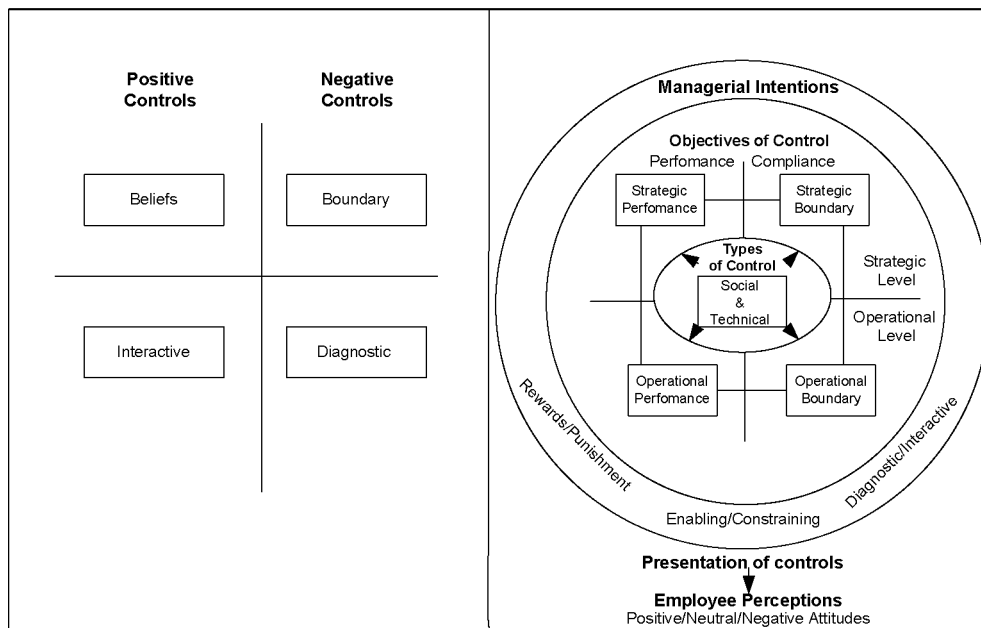


Figure 1. Evolution of the Simons Framework

Source: adapted from [33, p.183]

Fig. 1 illustrates the first and final stages in the evolution of the levers of control concept. The first segment graphically depicts Simons' original model. The final segment presents an extended version of the framework, which introduces several important ideas, discussed in more detail below.

First, two types of actors are introduced: managers and employees. This separates managerial intentions from employees' perceptions of controls.

Second, managerial intentions are structured across three levels of decision-making. The first level is a choice between two types of control: social and technical controls. Social controls appeal to "emotional, non-rational, affective elements within employees" and include the belief system from Simons' original concept. Technical controls manage day-to-day activities within the organization.

The second level involves the choice among four management control systems, each with specific objectives. Two of these systems are responsible for operational and strategic performance, while the other two manage risks at both levels. All four represent a mix of social and technical controls, symbolically represented by arrows from the first to the second level.

The third level includes choices related to the use of control (diagnostic/interactive), the role of control (enabling/constraining), and the consequences of control (reward/punishment). Overall, the revised concept retains nearly all elements of Simons' original framework, though sometimes in adapted forms [33].

According to Simons, strategic control is achieved by balancing all four levers of control. Balance must be established across a number of tensions, such as: unlimited opportunities vs. limited managerial attention; personal interest vs. organizational contribution; intended vs. emerging strategy; and innovation vs. predictability. However, Simons does not provide a precise definition of what this balance means or how it is reflected in practice.

A group of researchers conducted an empirical study to answer the question: What does balance look like in the Levers of Control Framework? The aim was to provide insight into various balance arrangements across strategic business units. The study concluded that there is no single universally acceptable balance model. Rather, there are several configurations that involve all four levers, though not equally important across all units. In other words, balance means different things to different organizations. Managers must choose control models that best fit their specific strategic context [34].

Simons' Levers of Control Framework, including recent works by other authors, represents a significant advance in terms of reality compared to traditional management control theory. The research perspective of levers of control moves away from agency theory toward the field of business strategy. The

main purpose of management control is no longer to solve agency problems, but to participate in the implementation and control of the organization's strategy.

Simons' Framework of levers of control contains several important facts. The organization is not seen as a simple set of formal and informal contracts that protect the asymmetric interests of principal and agent. On the contrary, the organization is seen as a stage on which mutually opposing forces operate. It recognizes the tensions in strategy implementation, which strongly contradicts the traditional theory according to which goal congruence is achieved almost automatically. The Levers of Control Framework implicitly advocates the view that organizations operate on the principle of coalitions that have different desires and ambitions. Goal congruence does not exist in organizations, at least not in the way traditional management control theory explains it.

The logic of the Levers of Control Framework, as another element of reality, is clear and unambiguous. The successful implementation and control of an organization's strategy depends on the manager's intentions regarding the choice of control. Managers can choose between two types of control, four systems of management control, operational and/or strategic levels of implementation, as well as the way in which they want to implement controls. All of this enables greater flexibility in achieving the interests and goals of owners, employees, and other stakeholders. The levers of control should be used in a balanced and compromising manner. In practice, leverage balance has different meanings for different organizations. This is because organizations follow their specific strategies and choose appropriate control systems, including the degree of tightness or looseness in their use.

Values are another element of reality that differentiates traditional management control theory from the Levers of Control Framework. Traditional theory holds that all entities within an organization share the same values. Simons mitigates this unrealistic assumption by introducing the so-called core values in the functioning of the organization. Core values are controlled by a lever called belief control. In the revised and expanded framework, belief control has been completely incorporated into the broader concept of social control. In this way, core values became part of what is called the manageable part of organizational culture. Despite the better positioning of core values within the Levers of Control Framework, there are opinions that the elements of those values are too broadly defined and leave much room for subjective interpretation [32].

Communication as an element of reality is a debatable area in the Levers of Control Framework. Every organization has two actors — managers and employees. The framework concentrates on managers' intentions to exercise control. Employees have perceptions of justice and fairness. Unfortunately, their perceptions are neither explained nor analyzed in the concept of levers of control.

The framework emphasizes the role of top management in top-down communication. In addition, communication as a social act implies the use of informal controls. These controls are not sufficiently represented within the framework. This limits its applicability in smaller organizations. Dialogue between different managerial levels within the organization is difficult, especially on the issues of control use (diagnostic/interactive), its role (enabling/constraining), and/or the consequences associated with control (reward/punishment).

The Levers of Control Framework, in both its original and extended versions, does not fully meet the criterion of reality. The reasons for this are difficulties in integrating two essential elements of reality: values and communication. Therefore, the framework cannot remove the barriers to a closer connection with ethics. The insufficient presence of ethics is implicitly "compensated" by offering a very wide range of types of control, control systems, and ways of their use. However, even such a wide variety of controls cannot successfully address issues that, by definition, belong to the realm of ethics. For example: who determines what the core values of the organization are and how; the role of informal controls in reducing tensions; employees' perceptions of the design and use of control systems; and the consequences for the actualization of their human values, etc.

## BALANCED SCORECARD

Kaplan and Norton presented a multidimensional system for performance measurement and management that is connected to the strategy of the organization, that is, its business units, in 1991. The research perspective of these authors is reflected in the organization, which is presented as a set of four quadrants, namely: (i) financial; (ii) customers; (iii) internal processes; and (iv) learning and growth. These four quadrants cover the entire range of organizational activities, both internal and external, as well as current and future [35].

Kaplan and Norton's research perspective is based on a number of facts. Within each quadrant, the most important goals and performance measures are defined. Performance indicators are divided into two groups. One group consists of traditional financial indicators that are oriented toward the past. The second group consists of the so-called leading indicators, which should help managers in guiding the future direction of the organization. Indicators can also be financial and non-financial, i.e., qualitative. Non-financial indicators are particularly important for controlling activities within the quadrants of internal processes and learning and growth.

The logic of the Balanced Scorecard is reflected in the redirection of managers' attention from short-term to long-term or strategic goals. The long-term time horizon takes precedence over the short-term horizon. Strategic leadership takes precedence over operational leadership. Creating a balanced portfolio of financial and non-financial indicators is the main mechanism by which such reorientation is carried out. Shifting the focus from operational activities to strategic management has become necessary, given the dynamics of external competitive environments and the complexity of internal organizational structures.

The logic of the Balanced Scorecard described above is subject to some criticism. For some authors, the cause-and-effect relationship between non-financial indicators and future financial performance is unclear and not sufficiently grounded either theoretically or empirically.

The Balanced Scorecard does not explicitly address values. Values are defined by the strategy of the organization, that is, its business units. The Balanced Scorecard takes these values as given and operationalizes them through a multidimensional system of indicators. The tensions that exist between stakeholders in different quadrants are reconciled until a final, "balanced scorecard" is reached.

Communication, as an element of reality, contains serious shortcomings. The creators of the Balanced Scorecard do not specify what the target-setting process looks like, nor how the necessary means are linked to the goals. Information systems and feedback loops are taken for granted [36]. Communication takes place in a top-down direction. The participation of managers at lower hierarchical levels is insufficiently represented in the creation and implementation of the Balanced Scorecard [3].

The Balanced Scorecard also fails the criterion of reality. Similar to the Levers of Control Framework, the Balanced Scorecard has problems integrating two key elements of reality—values and communication. Therefore, it ignores and/or abstracts some controversial issues that undoubtedly fall into the realm of ethics. The first such question is: Are the interests and goals of all stakeholders in the organization really respected equally, or is priority given to stakeholders in the financial quadrant, who are primarily the owners, i.e., shareholders? Second, the incoherence between goals and the reward system raises the issue of distributive justice, in terms of fairness of results—i.e., outcomes in organizations. This problem also relates to non-financial indicators, which are used to reward managers and employees. These indicators are sensitive to manipulation and are based on subjective opinions and judgments. Third, ambiguities regarding target-setting and the functioning of feedback loops intensify the issues of procedural and informational justice.

## PERFORMANCE MANAGEMENT SYSTEM

Ferreira and Otley's research perspective is based on an extended framework of questions designed as a descriptive tool for gathering theoretical and empirical evidence to improve management control. The framework adopts a holistic approach, which means that the whole is greater than the sum of its individual parts. According to the authors, such a framework could be referred to as a "performance management system." This term is significantly broader than the classic definition of management control proposed by Robert Anthony several decades ago. The reason is that the extended framework encompasses all aspects of organizational

control, including management control. More precisely, performance management systems include all formal and informal mechanisms, processes, systems, and networks that organizations use to support the achievement of their goals. Ferreira and Otley's perspective was motivated by the need to overcome the limitations and shortcomings of traditional management control theory and contingency theory [37; 38].

The framework consists of twelve theoretically grounded questions that researchers should answer clearly. The first eight questions form the core of the performance management system: (1) vision and mission; (2) key success factors; (3) organizational structure; (4) strategies and plans; (5) key performance measures; (6) setting goals; (7) performance evaluation; and (8) reward systems. These eight control structures are expected to be part of, or at least to influence, belief systems and/or boundary systems in terms of Simmons' Levers of Control Framework.

The last four questions are: (9) information flows, systems, and networks; (10) use of performance management systems; (11) performance management system change; and (12) power and connectivity. These questions permeate the entire performance measurement system and help create a holistic perspective.

Issues related to culture and context remain outside the framework. This is because factors influencing culture and context are largely beyond the organization's control. Context includes many variables, such as: external environment, strategy, organizational structure, size, technology, and ownership structure. Ferreira and Otley included only two contextual variables—strategy and organizational structure—since the framework is meant to focus solely on factors within the organization's control. Researchers can use this framework as a descriptive tool to analyze the design and use of a "package" of controls to effectively implement an organization's strategy and plans [32].

The framework for building a performance management system does not offer ready-made solutions. However, future systems have the potential to integrate all elements of reality. The arguments supporting this claim are presented below.

Ferreira and Otley's framework includes twelve key questions that are coordinated and merged into a unified whole, reflecting a holistic approach. Since each question demands an answer, an inevitable step is the collection of facts. As a result, an integrated set of questions creates an integrated set of facts.

Facts alone do not constitute reality—opportunities are also necessary. The only way to identify opportunities is through thinking, or logic, which is another element of reality. From a manager's point of view, an integrated fact base facilitates logical reasoning. Using logic, managers can identify different configurations of control structures that suit the organization. In this regard, opportunities should be explored based on the facts gathered in questions (1)–(8) and (11) of Ferreira and Otley's framework.

Values are the third element of reality. They energize researchers to gather facts, analyze possibilities, and make informed choices. Although values are subjective, organizations can objectify them. The essence of objectification is that subjective individual values are aligned in a way that supports organizational goals. Accordingly, managers should adopt the values that emerge from the answers to questions (1), (2), (4), (5), (8), and (12) of the framework.

Organizations cannot function without communication—the fourth element of reality. Communication enables collaboration and allows managers to understand the values and thoughts of employees and other stakeholders. Effective communication can be built based on the answers to questions (9) and (10) of the framework.

Ferreira and Otley's framework contributes in several ways. First, it allows performance management systems to be designed and used based only on factors under the organization's control. Although contextual factors are important, they are excluded from the framework, thus limiting the influence of contingency theory on further developments in management control.

Second, performance management systems in the form of a control "package" do not contradict the previously initiated discussion on the topic: Should the components of management control be viewed as a "system" or a "package"? [39]. Until recently, however, there were theoretical and empirical ambiguities about what is really meant by the terms "control package" or "control system." These ambiguities have been addressed in recent works. A control system implies the use of different, but interdependent, management control practices. When designing a control system, these interdependencies are taken into account. A control package includes the complete set of control practices used by the organization. When designing a control package, the question of whether control practices are interdependent or not is not discussed at all.

Interdependence implies that the value of one management control practice depends on the use of another management control practice, and *vice versa*. There are two types of interdependence: complements and substitutes. In the context of complements and substitutes, an interesting question is: What is the relationship between formal mechanisms of control and trust? Is trust a substitute or a complement to formal management control mechanisms? The substitution relationship suggests that trust and formal control are inversely related—more trust results in less use of formal control, and *vice versa*. Although a certain management control practice may be related to trust, the decision-maker cannot directly decide on trust. In the formal analysis of the design of management control systems, trust is not treated as one of the variants of control practices between which managers make a choice. Trust is a contextual variable over which managers have no direct control [40].

The idea of a "package" of control is increasingly accepted in recent literature as well. This is because there is a growing belief that it is impossible to find unique patterns of management control that are applicable in different organizations and in different time periods. In this regard, the literature on management control should recognize the possibility of equifinality. This means that organizations with completely different managerial styles and with different characteristics of long-term, evolutionary internal changes can be equally successful. The importance of equifinality is also confirmed by empirical evidence in recent studies [41; 42; 43].

The above arguments would enable the construction of a control system that integrates all elements of reality and enables a closer connection between ethics and management control. As a result, the control system would be trust-based instead of based on shareholder primacy. However, there are no guarantees for such an outcome.

Ferreira and Otley's framework of questions undoubtedly contains the good intention that performance management systems should serve the benefit of the organization. Recent literature, however, warns that this may not always be the case. Namely, management control systems do not act as passive mechanisms that managers use to help allocate resources. Instead, these systems can be used to legitimize certain power relations within an organization or allow groups within society to maintain their command over resources or political direction [44].

## DISCUSSION

In this paper, two research questions were posed, along with two hypotheses regarding the relationship between ethics and management control. The first research question was inspired by the fact that ethics and management control are not closely related in theory and practice, despite having similar purposes arising from their definitions. The answer is offered in the form of Hypothesis 1, which claims that the main reason for this lies in agency theory and corporate governance based on shareholder primacy.

In Section Five of this paper, numerous arguments in support of Hypothesis H1 are presented. Conditionally, they can be grouped into three categories. The first group of arguments summarizes well-known criticisms of agency theory, which are not disputed even by its proponents—for example, simplified and schematized assumptions about the economic rationality of agents and principals, and solving agency problems through various incentive schemes. The second group of arguments challenges the claim made by agency theory that goal congruence between the organization and individuals is achieved almost automatically. Perfect goal congruence does not exist. By crossing the concepts of justice (formal/informal) with the design of the management control system (formally just/formally unjust), it becomes evident that goal congruence between individuals and the organization can be achieved at different levels. Consequently, the effectiveness of management control systems can vary significantly. The third group of arguments contests corporate governance based on shareholder primacy. The idea that control rights are automatically assigned to those who provide financing—namely, corporate owners—does not reflect reality. Boards of directors should not merely act as agents who manage corporations in the interests of their owners. On the contrary, boards of directors should govern for the benefit of all parties in whose interest the corporation was established. This is the so-called trusteeship approach, which implies that shareholders' management rights should be considered alongside the rights of employees, customers, suppliers, and other current and future stakeholders.

It can be concluded that agency theory and corporate governance based on shareholder primacy create serious barriers to a closer connection between ethics and management control. Ethics is reduced to an "ex post" solution for ethical problems that may arise within organizations, which normally falls under the scope of business ethics. Unfortunately, many other problems remain outside the ethical framework—for example, the depersonalization of individuals due to the inability to actualize their technical and moral values within organizations, or the neglect of justice and fairness in achieving goal congruence. Both of these issues can significantly reduce the effectiveness of management control.

The second research question in this paper was conditional. Namely, if Hypothesis H1 is correct, can modern approaches that are not based on agency theory and shareholder primacy remove the barriers to a closer connection between ethics and management control? The answer is offered in the form of Hypothesis H2. In short, this hypothesis claims that these approaches are unable to do so, because they do not meet the criterion of reality. More precisely, none of the modern approaches discussed in this paper manage to fully integrate all four elements of reality—namely, facts, logic, values, and communication. As a result, some important ethical issues are not addressed in the design and use of management control systems.

In Section Six of this paper, three well-known management control systems are evaluated based on the criterion of reality. All three systems reject agency theory as their research perspective in favor of a business strategy perspective. In general, this shift can be seen as a major step forward in terms of representing reality, compared to the reductionism of agency theory.

Simons' Levers of Control Framework, in both its original and extended versions, and Kaplan and Norton's Balanced Scorecard, do not meet the criterion of reality. Both systems face difficulties in integrating two of the four elements of reality—namely, values and communication. Simons' Levers of Control Framework implicitly "compensates" for its weak ethical connection by offering a wide variety of types of control, control systems, and methods of application. However, several important ethical questions remain unaddressed, such as: who defines the core values of the organization and how; the role of informal controls in reducing organizational tensions; and employees' perceptions of the design and use of control systems, including the consequences for actualizing their human values.

The Balanced Scorecard ignores or abstracts away from several controversial issues that undoubtedly belong to the realm of ethics. The first such issue is whether the interests and goals of all organizational stakeholders are truly respected equally, or whether priority is given to stakeholders in the financial quadrant—namely, the owners or shareholders. Second, the disconnect between goals and the reward system raises the problem of distributive justice, in terms of fairness of outcomes within organizations. Third, ambiguities regarding target setting and the functioning of feedback loops further complicate issues of procedural and informational justice.

Ferreira and Otley's framework for building a performance management system does not offer ready-made solutions. Although future performance management systems may have the potential to integrate all elements of reality, there are no guarantees for such outcomes. Ferreira and Otley undoubtedly demonstrate good intentions—namely, that performance management systems should serve the benefit of the organization. However, recent literature warns that management control systems do not function as passive mechanisms that simply help managers allocate resources. On the contrary, such systems are often used to legitimize existing power relations within organizations, which is ethically unacceptable.

## CONCLUSION

The subject of research in this paper was the relationship between ethics and management control, with the aim of identifying their points of contact and the limitations that hinder a closer connection. The goal of the research was to explore the possibilities for creating an efficient, trust-based management control system that would align with the spirit of proposed reforms in corporate governance and capitalism in general.

Trust-based management control is not a new or exclusive system in which classical corporate control would be "replaced" by trust. Management control and trust are not substitutes; on the contrary, in the process of designing a management control system, trust is considered a contextual variable. Trust-based management control is a concept that implies corporations should build their control systems on a new, reform-oriented foundation. This foundation includes: (i) a shift in corporate purpose—from profit as an end in itself to solving societal and environmental problems in a profitable way; and (ii) a redefinition of ownership and

responsibility—ownership is no longer seen solely as a set of rights held by private owners, but also as a set of duties and responsibilities directed toward achieving corporate purpose. In this way, trust among both internal and external stakeholders in the functioning of corporations is continuously affirmed.

A closer connection between ethics and management control—and the design of a trust-based control system—will only be possible when controversial discussions on ethics and capitalism are reconciled at the macro level. The macro level is essential for institutionalizing the new corporate purpose and the redefined understanding of ownership, along with the rights and responsibilities that come with it. These issues should be addressed by state and regulatory institutions. New institutional solutions would have the power to alter the current status of trust within management control systems. Specifically, trust as a contextual variable could be transformed into a factor over which corporations can exert direct control. In this way, the necessary conditions would be created for trust-based management control to evolve from a promising idea into an effective control system suited to the spirit of the new era.

The research findings in this paper support the above views regarding the necessity of including a macro perspective. The discussion in the previous section confirmed both Hypotheses H1 and H2. This leads to a clear conclusion: the micro perspective is not sufficient. In other words, existing management control systems, under their current structure and within the “default” value framework of capitalism, cannot be transformed into trust-based systems. Ethics remains separated from management control by strong barriers—whether due to the influence of agency theory and shareholder primacy, or because modern approaches fail to integrate all elements of reality. This leaves the macro perspective as the only viable path forward.

This paper contributes to the development of management control research in two key ways. First, the future of corporations as trustworthy and purposeful entities with developed ethical cultures depends on a closer relationship between ethics and management control. This paper has examined the points of contact, as well as the barriers that stand in the way. In this regard, it is especially important to note that modern management control systems which fail to integrate all elements of reality tend to overlook a large number of issues with undeniable ethical significance. A key recommendation is that future designers of management control systems should adhere much more strongly to the criterion of reality than has been the case so far.

Second, in this paper, ethics is not treated merely as a passive, “ex post” tool for resolving ethical dilemmas within corporations. Rather, ethics should act as a proactive driver and initiator in the creation of a trust-based management control system—both at the macro and micro levels.

## REFERENCES

- [1] The British Academy. (2019). Principles for Purposeful Business, pp.1-44
- [2] Mayer, C. (2020). Ownership, Agency, and Trusteeship: an Assessment. *Oxford Review of Economic Policy*, Volume 36, Number 2, pp. 223–240
- [3] Berry, AJ., Coad, AF., Harris, EP., Otley, DT., C. Stringer. (2009). Emerging Themes in Management Control: A Review of Recent Literature. *The British Accounting Review* 41, pp. 2–20
- [4] <https://corporatefinanceinstitute.com> (accessed: october, 2022.)
- [5] ACCA. (2016). Performance Management. BPP Learning Media
- [6] Fakultet organizacionih nauka. (2018). *Finansijski menadžment, kontrola i menadžersko računovodstvo*. Beograd
- [7] Nørreklit, L., Nørreklit, H., P.Israelsen. (2006). The Validity of Management Control Topoi: Towards Constructivist Pragmatism. *Management Accounting Research*, 17, pp. 42–71
- [8] Giraud, F. at all. (2011). *Fundamentals of Management Control*. Pearson Education France
- [9] Slijivic S., Skorup S., Zakic, N. (2015). Management Control in Modern Organizations. *International Review.*, ISSN 2217-9739. No. 3-4
- [10] <https://www.icmrindia.org> (accessed: november, 2022.)
- [11] Ashrafi, Z. at all. (2018). An Investigation of the Relationship Between Organizational Ethical Climate and Positive Organizational Behaviors of the Staff at the Shahrud University of Medical Sciences. *International Review*. ISSN 2217-9739 , No.1-2, pp. 38-58

- [12] <https://iep.utm.edu> (accessed: september, 2022.)
- [13] <https://www.investopedia.com> (accessed: december, 2022.)
- [14] <https://www.redlands.edu> (accessed: september, 2022.)
- [15] <https://www.oxfordbibliographies.com>(accessed: november, 2022.)
- [16] Laith, Ali Z. G., Alaa, S. J., Abd, R. A. (2019). The Effect of Organizational Justice on Job Satisfaction Among Secondary School Teachers. *International Review*. ISSN 2217-9739, No. 3-4, pp. 85-93
- [17] <https://www.bdc.ca> (accessed: october, 2022.)
- [18] Rosanas, J. M., Velilla, M. (2004). The Ethics of Management Control Systems. Working Paper No 563, pp.1-20
- [19] Merchant, K. A., Ferreira White, L. (2017). Linking the Ethics and Management Control Literatures. *Advances in Management Accounting*. Volume 28, pp. 1-29
- [20] Klein, L., Beuren, M. I., Dal Vesco, D. (2019). Effects of the Management Control System in Unethical Behaviors. *RAUSP Management Journal*. Vol. 54, No. 1, pp. 54-76
- [21] Chadegania, A. A., Jaria, A. (2016). Corporate Ethical Culture: Review of Literature and Introducing PP Model. *Procedia Economics and Finance* 36, pp. 51 - 61
- [22] De La Cruz, A., Medina, A., Tang, Y. (2019). Owners of the World's Listed Companies. *OECD Capital Market Series*. Paris, [www.oecd.org/corporate/Owners-of-the-Worlds-Listed-Companies.htm](http://www.oecd.org/corporate/Owners-of-the-Worlds-Listed-Companies.htm).
- [23] Fama, E. F., Jensen. M. C. (1983). Separation of Ownership and Control. *Journal of Law and Economics*, Vol. XXVI, pp.1-32
- [24] <https://www.oxfordreference.com> (accessed: november, 2022.)
- [25] Armour, J. (2020). Shareholder rights. *Oxford Review of Economic Policy*, Volume 36, Number 2, pp.314-340
- [26] Parmar, B. L. at all. (2010). Stakeholder Theory: The State of the Art. *The Academy of Management Annals*, pp.1-62
- [27] Malmi, T., at all. (2020). Culture and Management Control Interdependence: An Analysis of Control Choices that Complement the Delegation of Authority in Western Cultural Regions. *Accounting, Organizations and Society*, 86, pp.1-16
- [28] Cugueró-Escofet, N., Rosanas, J. M. (2013). The Just Design and Use of Management Control Systems as Requirements for Goal Congruence. *Management Accounting Research*, 24, pp.23-40
- [29] Rosanas, J. M., Cugueró-Escofet, N. (2015). Justice: a Sufficient Condition for Goal Congruence in Management Control Systems. Working Paper WP-1129-E. IESE Business School-University of Navarra, pp. 1- 13
- [30] Kennedy, F. A., Widener, S. K. (2020). Socialization Mechanisms and Goal Congruence. *Accounting, Organizations and Society* 76, pp. 32-49
- [31] Van der Kolk, B., Van Veen-Dirks, P. MG., Bogt, H. J. (2020). How Combinations of Control Elements Create Tensions and How These Can be Managed: An Embedded Case Study. *Management Accounting Research* 48, pp. 1-15
- [32] Ferreira, A., Otley, D. (2009). The Design and Use of Performance Management Systems: An Extended Framework for Analysis. *Management Accounting Research* 20, pp. 263-282
- [33] Tessier, S., Otley, D. (2012). A Conceptual Development of Simons' Levers of Control Framework. *Management Accounting Research*, Volume 23, Issue 3, pp.171-185
- [34] Kruis, A-M., Speklé, R. F., Widener, S. K. (2016). The Levers of Control Framework: An Exploratory Analysis of Balance. *Management Accounting Research* 32, pp. 27-44
- [35] Mackay, A. (2005). *A Practitioner's Guide to the Balanced Scorecard*. CIMA, pp.1-64
- [36] Otley, D. (1999). Performance Management: a Framework for Management Control Systems Research. *Management Accounting Research*, 10, pp. 363-382
- [37] Otley, D. (2016). The Contingency Theory of Management Accounting and Control: 1980-2014. *Management Accounting Research* 31, pp. 45-62
- [38] Merchant, K. A., Otley, D. (2020). Beyond the Systems Versus Package Debate. *Accounting, Organizations and Society*, 86, pp.1-7

- [39] Malmi T., Brown AD. (2008). Management Control Systems as a Package-Opportunities, Challenges and Research Directions. *Management Accounting Research*
- [40] Grabner, I., Moers, F. (2013). Management Control as a System or a Package? Conceptual and Empirical Issues. *Accounting, Organizations and Society* 38, pp. 407–419
- [41] Bedford, D. S., Malmi, T., Sandelin, M. (2016). Management Control Effectiveness and Strategy: An Empirical Analysis of Packages and Systems. *Accounting, Organizations and Society* 51, pp. 12-28
- [42] Bedford, D. S. (2020). Conceptual and Empirical Issues in Understanding Management Control Combinations. *Accounting, Organizations and Society* 86, pp. 1-8
- [43] Martin, M. A. (2020). An Evolutionary Approach to Management Control Systems Research: A Prescription for Future Research. *Accounting, Organizations and Society* 86, pp. 1-4
- [44] Chenhall, R. H. (2003). Management Control Systems Design Within its Organizational Context: Findings from Contingency-Based Research and Directions for the Future. *Accounting, Organizations and Society* 28, pp. 127–168

**Article history:**

Received 15 March 2023

Accepted 19 April 2023