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# **Changing Views on Organizational Control in the Countries of the Eastern Bloc**

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2017

Online at <https://mpra.ub.uni-muenchen.de/84463/>

MPRA Paper No. 84463, posted 11 Feb 2018 00:58 UTC

## Citations for this paper

### APA

Misun, J. (2017). Changing Views on Organizational Control in the Countries of the Eastern Bloc. In R. Seweryn & T. Rojek, *Knowledge – Economy – Society. Selected Problems of Dynamically Developing Areas of Economy* (pp. 49-63). Cracow: Foundation of the Cracow University of Economics.

### Harvard

Misun, J. (2017). Changing Views on Organizational Control in the Countries of the Eastern Bloc. In: R. Seweryn and T. Rojek, ed., *Knowledge – Economy – Society. Selected Problems of Dynamically Developing Areas of Economy*. Cracow: Foundation of the Cracow University of Economics, pp.49-63.

### ISO 690

MISUN, JURAJ, 2017, Changing Views on Organizational Control in the Countries of the Eastern Bloc. In : *Knowledge – Economy – Society. Selected Problems of Dynamically Developing Areas of Economy*. Cracow : Foundation of the Cracow University of Economics. p. 49-63.

### Chicago

Misun, Juraj. 2017. "Changing Views On Organizational Control In The Countries Of The Eastern Bloc". In *Knowledge – Economy – Society. Selected Problems Of Dynamically Developing Areas Of Economy*, 49-63. Cracow: Foundation of the Cracow University of Economics.

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Chapter no.: 4  
Chapter title: Changing Views on Organizational Control in the Countries of the Eastern Bloc  
Pages: 49-63

Publisher: Foundation of the Cracow University of Economics  
City: Cracow  
Country: Poland

# Chapter 4

## Changing Views on Organizational Control in the Countries of the Eastern Bloc<sup>1</sup>

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*Juraj Mišún*

### 1. Introduction

Control is the terminal sequential function of management and its importance has risen during the last economic crisis. In the Eastern approach of organizational control, a manager can be either the subject of control, when he oversees an object or the object of control, when another subject oversees him. The subject and object do not need to be necessary from the same system, which means that this is a case of external control. The meaning of external and internal control in the Western approach is different and the internal control is in the Eastern approach called self-control.

In Slovakia and many other Eastern European countries (generally known as Eastern bloc), control has also a dark side of its history, thanks to the communistic regime. This can result to negative views from managers who remember the use of control by the regime. Based on two questionnaire surveys of 2014/2015 and 2016/2017 we examine the changing views of managers, as the number of executives who did not experienced the era of communism is increasing. Given the limited size for the article, it will deal only with the views of managers when they are an object of control. In addition to this goal, we point out some differences between the theory of organizational control in Western and Eastern countries.

### 2. Theory of organizational control

Organizational control is in addition to planning, organizing, staffing and leadership one of the so-called sequential management functions. Also due to its status as the last step of the management process, it is the least researched function. Based on the study of literature, much more attention is paid to the other sequential functions. From parallel managerial functions, the decision-making function enjoys also more attention. In 1977, for example, Ouchi pointed out that the functions of organizing and control were not enough insufficiently differentiated in theory. Despite the fun-

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<sup>1</sup> This paper is an output of the research project “Trends of internal control in business entities in the light of new challenges” (VEGA 1/0135/17) funded by the scientific grant agency VEGA.

damental nature of this phenomenon, its importance and some significant progress, this scientific area is still neglected. Specifically, control is poorly captured in its constructs, determinants, and effects (Sitkin et al., 2010). “We lack an integrated conceptual framework to understand, visualize, and analyze control issues” (Flamholtz, 1996).

The gaps in theory persisted despite control’s very long history. The word control comes from ancient Rome and evolved from the concept of “contra rotulus”, which we freely interpret as a counter-scroll (Majtán et al., 2003). Part of its history has also been the semi- and fully-automated control, helping people make their lives easier and more comfortable for millennia. Its early days are dated to the third century BC with the development of the first (water based) clock (Lewis, 1992). We are currently witnessing constant monitoring, whether for the benefit or the failure of our future. Privacy, for example, is losing on importance in the name of security.

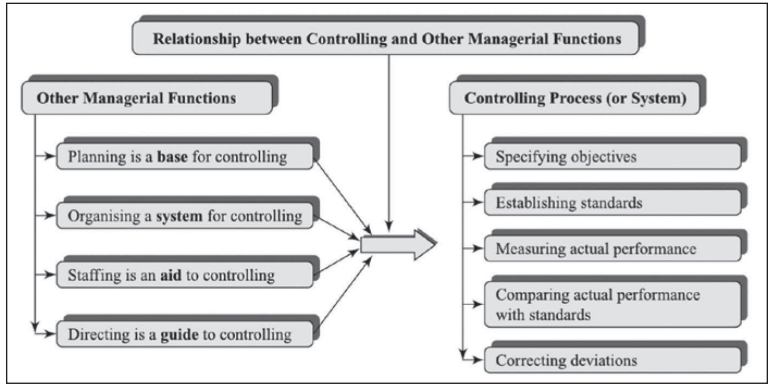
Fayol brought one of the first definitions of managerial function of control in 1949, when he stated: “control of an undertaking consists of seeing that everything is being carried out in accordance with the plan which has been adopted, the orders which have been given, and the principles which have been laid down. Its object is to point out mistakes in order that they may be rectified and prevented from recurring”. Anthony later defined control as the process through which managers ensure that resources are procured and used efficiently and effectively to meet the goals of the organization. Among the Slovak authors, Kráčmar et al. (2013) define control as a specific, multi-step activity, which provides information for correcting plans and supporting decision makers through the control process.

At first sight, control may appear to be the last phase of the management process, but it does not correspond to reality. It is a truly dynamic function and is interrelated with the other management functions. It includes corrective actions based on the analysis of deviations in the performed performance from the desired results. A corrective action may include a review of objectives, strategies, procedures, plans, organizational structure, etc. This aspect of control establishes the interaction relationship between it and other management functions. It means that control affects other managerial functions, and is ultimately affected by them (Agarwal, 1982). Relationships of controlling and the other functions of management are shown in Figure 1<sup>2</sup>.

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<sup>2</sup> Here, as well as elsewhere in the article, we quote some literature from India. In this regard, it is necessary to point out that due to the colonial past of India, we cannot include this country among representatives of the Eastern approach to control in management. Nearly all of the studied works have a clear connection to British and American literature.

Figure 1. Relationships between controlling and other management functions<sup>3</sup>



Source: (Rudani, 2013, p. 680).

The controlling function of management can be a critical determinant of organizational success (Merchant, 1982). Failures in control can lead to large financial losses, damage to reputation, and even to the failure of the entire organization (Merchant & Van Der Stede, 2007). Its importance derives from its versatility as well as from many implications of how organizations behave (Tannenbaum, 1965). Through control, companies try to increase the probability that individuals and groups will behave in a way that will lead to organizational goals. This means that control is purposeful and its purpose is to influence people to take action and make decisions that are in line with the organization’s goals (Flamholtz et al., 1985). Control is an incentive for the subject of management to ensure dynamic balance by new decisions (Konečný, 1998). In order for the control process to be meaningful, organizations need to be aware of and have the ability to adjust the situations they identified as out-of-control. Otherwise, control does not serve any purpose (Atkinson et al., 2012). It is important to recognize that the control function of management is present in all processes running in the company. If its techniques and procedures change, it never changes its substance, that is, how to use resources appropriately and efficiently to achieve planned outputs and to get closer to achieve the strategic goals of the company (Petřík, 2005). According to Merchant, Van der Stede and Zheng (2003) control represents the ending of the management process.

Terms like management accounting, management accounting systems, management control systems, and organizational controls are many times used interchangeably. “In general, management accounting refers to a collection of practices such as budgeting or product costing, while management accounting systems refers to the systematic use of management accounting to achieve some goal” (Chenhall, 2003). Management control system is interpreted broader and besides management accounting systems, it includes other controls such as personal or clan controls (Brenner, 2009). Unfortunately, management accounting is currently gaining in popularity (both in theory and practice) and is often considered more important than the management function of control. This leads to negligence of control by managers, as they rely heavily on the information provided by managerial accounting. In addition, qualitative aspects of activities get neglected, as they are not sufficiently evaluated by managers.

<sup>3</sup> Directing is often used in the literature as a synonym for the managerial function leadership. Rudani uses in his scheme a five step control process.

Symptoms of an out-of-control company, as listed by Bateman and Snell (2015), include lax top management, absence of policies, lack of agreed-upon standards, “shoot the messenger” management, lack of periodic reviews, bad information systems, and lack of ethics in the culture.

In general, effective business without control can hardly exist. However, as Merchant (1982) argues a possibility of eliminating the need for control can be found, namely by automation of activities, centralization of decision-making, risk sharing to other entities and termination of business unit or the enterprise.

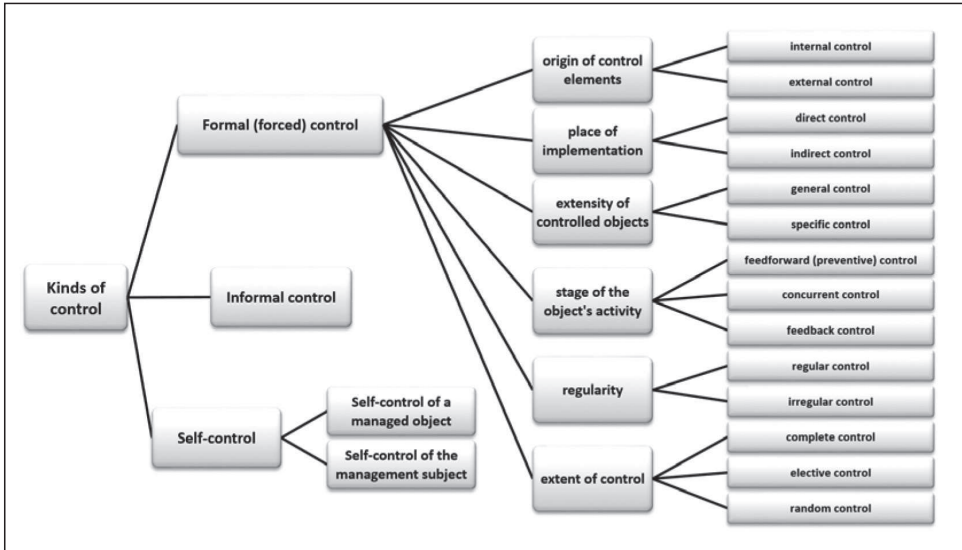
In the case of control, the issue of its volume is very important. A sufficient number of controls can prevent organizations in such types of issues as theft, fraud and unintentional errors. However, adding more controls may not always lead to a generally better situation in companies. Some commonly used control systems often suppress initiative, creativity and innovation (Merchant & Van der Stede, 2007).

Domestic theory divides functions of control according to the social sphere, which is relevant to the function (economic, technical, ecological, social, psychological function), and in terms of the content of human activity and its meaning in general (cognitive, influencing, educational function) (Kráčmar et al., 2013). In the Western approach, Griffin (2012) for example, has a different division of functions of control (adapting to environmental change, limiting the accumulation of error, coping with organizational complexity, minimizing costs).

Although control is very important for a successful business, it does not work completely without problems. Barriers or difficulties in control include difficulty in setting quantitative standards, no control over external factors, resistance from employees, costly affair, human problems, difficulty in fixing individual responsibility, lack of knowledge in controllers (Singla, 2010).

Authors of the Western approach to control mostly states three different types of control: feed-forward, concurrent, and feedback controls (Schermerhorn, 2011 or Williams, 2012). There are some variations, like preliminary, screening, postaction control (Griffin, 2016), but mostly with the same meaning. The Eastern approach has a much more elaborated typology, based on three main kinds of control, as shown in Figure 2. Not just in this case, the Eastern approach’s emphasis is on formal control. Western approach relies heavily on internal control, which is in the Eastern approach called self-control.

Figure 2. Typology of control in the Eastern approach



Source: own elaboration based on: (Gozora, 2000; Konečný, 1998; Kráčmar et al., 2013; Majtán et al., 2003; Oláh et al., 2011; Sedlák, 2008; Věpyová, 2001).

Probably the biggest difference between the Western and Eastern approach to control can be found in the concept of internal and external control. The same meaning, both in Western and Eastern approach, has the concept of internal and external audit. For an external audit, the subject and object do not come from the same system and are independent of each other. However, internal control in Western approach is strongly influenced by internal auditing, while in the Eastern Bloc, the audit did not began to actually develop until the early 1990s.

In the Western approach, “since Rotter (1954) first introduced his theory of social learning, there has developed an extensive body of research surrounding the central construct of locus of control”. While the perceived internal locus of control believes one’s personal belief has influence over outcomes through his skills, abilities, and efforts; the external locus of control believes that external forces can control outcomes (Kaufmann et al., 1995).

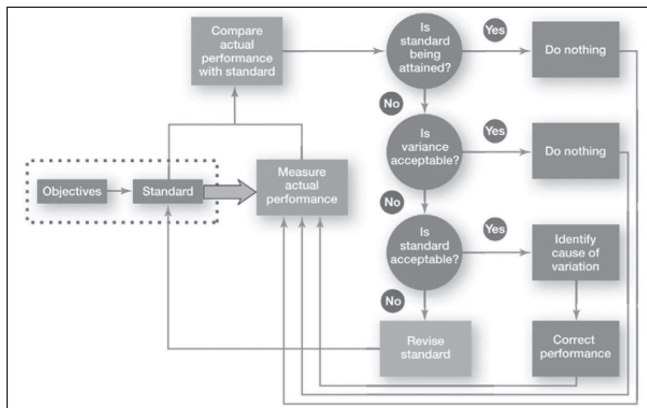
In the Eastern approach, “control can be classified as external control and internal control from the perspective of control subject”. External control means that the controllers are from the outer environment of the organization (subject and object come from different organizations). Examples include controls from government sector, financial control, taxation control, government audit control etc. (Zhang, 2014).

From the basic control theory, it is also appropriate to mention the control process. In the early domestic theory, we have a distribution into eight steps; by comparing it with foreign (Western) authors, we could call them as partial steps in the control process. In the Western approach, there are four (let us call them) general phases, namely the determination of performance standards, performance measurement, performance evaluation, and corrective action, if necessary (includes no activity, problem solving or adjusting the standards) (Montana & Charnov, 2000 or Schermerhorn, 2011, just to name few). While the Eastern approach is in this particular area slowly

moving towards the Western approach, some Western authors try reducing the number of steps in the general process by excluding the step of setting of standards. Control process by Robbins and Coulter (2012) for example does not need the setting of standards, because goals and objectives for the entire organization, individual divisions, different departments, or individuals were predetermined in the planning process. However, this implies a perfect planning process, which can cover all aspects of managerial work. In order to return to the partial steps of the control process, the general steps are preceded by (1) the determination of the matter of control, (2) the acquisition and selection of information for control, (3) the verification of the accuracy of the information obtained; and are followed by (8) reverse control (Kráčmar et al., 2013).

Although Robbins (in many of his works) does not accept the determination of standards as a separate step in the control process, he offers probably the best scheme explaining the control procedure in an organization with showing the different decisions in the control process (Fig. 3).

Figure 3. Managerial decisions in the control process



Source: (Griffin & Coulter, 2012, p. 491).

In the domestic literature, we find different approaches to the understanding of the term control, namely regulatory, negative, professional, informational, educational, repressive, cybernetic, and complex. It is ideal if the managers look at control complexly, but in practice we meet with the fact that they often deviate from this ideal. In the professional approach, they leave control to other persons or institutions. In a repressive approach, they abuse control to treat their inferiority complex. In an information approach, they only get information, but forget to act or leave the decision to someone more important. In the regulatory approach, they do not see the importance of preventive action. We see many negatives, but control should not cause negative feelings to be able to develop all its benefits. One of these approaches is educational, which aims to improve further development by pointing to errors during the process, with penalties following at repetitive errors.

Let us end the theoretical part of this paper by listening of major differences between Western and Eastern approaches to control shown in Table 1. Although this contribution may give the impression that it compares in particular the theory from Slovakia with the US theory, it is not. Slovak Republic has long been a part of Czechoslovakia, and the theory of management of these countries has been influenced by the theory of the Soviet Union. In addition, the comparison is based on newer works from countries ranging from the Czech Republic to China (for example Zhang, 2014).



Table 1. Major differences between the Western and Eastern approach to control

<b>Aspect</b>	<b>Western approach</b>	<b>Eastern approach</b>
Types of control	mainly feedforward, concurrent, and feedback controls	sophisticated typology with the accent on formal control (as shown in Fig. 1)
Forms of control	bureaucratic/administrative, clan, and market control	verification, control survey, supervision, inspection, review, audit, operational research
Steps in control process	mainly three to four	five to eight
Meaning of external control	a manager controls an employee	an entity outside the organization controls its operations, results or state
Meaning of internal control	an employee or a manager controls himself or herself	a manager controls an employee
Level of control	strategic, managerial/management, operational	deficiently covered in literature
Object of control	results, actions or personnel	systems that may be target-influenced (social systems and man, technical systems, biological and inanimate systems)

Source: own work based on a large number of Western and Eastern literature.

### 3. Methodology

At the University of Economics in Bratislava, specifically the Faculty of Business Management, the General management study program (master’s degree) has been developed in recent decades. Its aim is to provide students with the widest possible knowledge in business management. In order to meet this goal, courses that specialize in individual management functions began to emerge gradually. At present, there are separate courses for planning, organizing, staffing, leadership, control, and decision-making. Due to the specialization of individual members of the Department of Management in education, the next logical step was their identical specialization in research as well. This contribution is the result of the specialization of one of the members of the department on the management function of control.

Aim of this paper is to examine the changing views of managers on being controlled, as the number of executives who did not experienced the era of communism is increasing. In addition to this goal, we point out some differences between the theory of organizational control in Western and Eastern countries. With the planned continuation of this research, the results are still preliminary. Slovak Republic can serve as a good example, given that it does neither belong to the highly conservative nor very liberal countries of the former Eastern bloc.

Results presented in this paper come from two separate questionnaire surveys. The first survey of the perception of control by Slovak managers was carried out as part of a larger research of external control in Slovakia at the turn of 2014 and 2015. The questionnaire consisted of four main parts that served to evaluate the results of the sample survey: company identification, managers’ general attitudes to control, specific experience with external control of the company, and information on external control

in general. For this paper, only the second part is relevant, as it focuses on the respondent's attitude towards control. Of 337 completed questionnaires, 284 questionnaires were left for further processing.

The second questionnaire survey collected data at the turn of 2016 and 2017. It switched from external to internal control and was the first to be a part of the then freshly accepted research project devoted to internal control. Questionnaire's emphasis is on new trends in organizational control. Following the experience of the first questionnaire, the respondents were better specified, resulting in better returns and data that are more relevant. Overall, 395 completed questionnaires were received, of which 376 were further processed and 19 were excluded for various reasons. Although there is with many companies an overlap in the research sample, neither the questioned companies nor the respondents are the same. Both samples (Tab. 2) do not represent statistical representativeness for the Slovak Republic but are compatible with their parameters.

Using a range of positive, neutral, negative, respondents had to evaluate their attitude to control, both when controlling (they are subject to control), or when they are controlled (they are the object of control). In both cases, we asked respondents for a short justification. This also helped us to resolve questionnaires from inadequately competent respondents. A third questionnaire is planned for 2018/2019. We used standard scientific methods in evaluating and interpreting the results of our questionnaire surveys.

Table 2. Description of the research samples<sup>4</sup>

	Questionnaire	
	2016/2017 (376 total)	2014/2015 (284 total)
	<b>Number of employees in the previous year</b>	
microenterprises	115	130
small	96	86
medium	62	37
large	103	31
	<b>Management level of the respondent</b>	
higher	120	115
middle	62	30
lower	147	74
informed employees	47	65
	<b>Higher territorial unit of Slovak Republic</b>	
Bratislava (BA)	210	79
Trnava (TT)	36	18
Nitra (NR)	25	44
Trenčín (TN)	26	27
Žilina (ZA)	31	42
Banská Bystrica (BB)	17	51
Prešov (PO)	22	8
Košice (KE)	9	15

Source: own work.

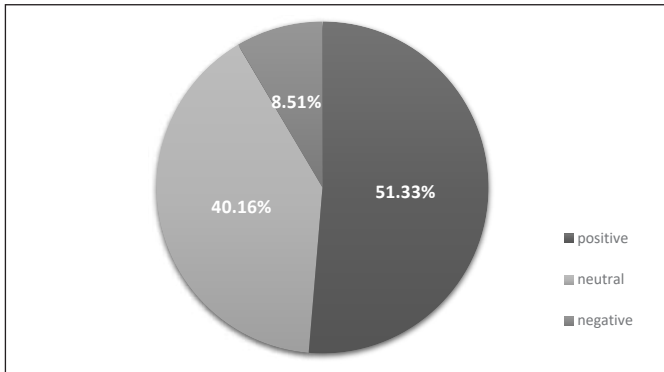
<sup>4</sup> The other characteristics of the sample were name of the company, sales of the previous year, economic result in the previous year, object of activity, legal form and seat of the company, but they are not necessary for the purpose of this paper.

### 4. Research results

In this section, we will look at our latest research results and compare them with previous results later in order to discover potential trends.

First, we look at the overall results for 2016/2017. At first glance, they are very encouraging: 193 respondents express a positive attitude to control when they are an object to it, 151 of them expressed the neutral attitude. Only 32 respondents have negative associations to control when they are controlled by another subject. The results should indicate that there are no major problems with the management function of control (Fig. 4).

Figure 4. Overall attitudes to control in role of the object of control



Source: own work.

However, the results need to be seen in more detail. Since positive or neutral attitudes to control do not signal problems, it is important to focus on negative attitudes and to make a deeper analysis. To proof our point, we can mention just few justifications of positive attitudes to the control function (Tab. 3, rows 1-3). Let us therefore proceed with the analysis of attitudes according to selected characteristics of the research sample. First, we approach respondents’ views according to the size of the business, in which they are active. As can be seen in Figure 4, the most negative perception of management function of control is in the case of microenterprises. Twenty-two respondents coming from this category do not see much positive on control.

Table 3. Attitudes to control of selected respondents when they are object to control

	<b>Attitude</b>	<b>Justification</b>	<b>Respondent description</b>
1.	positive	“No one is unmistakable, feedback is important for us in the working process”.	owner/small machinery industry company/TN
2.	positive	“When control does not detect any shortcomings I work correctly, on the contrary, if shortcomings are found I know what to avoid in the future”.	service manager/ large trading company/ZA

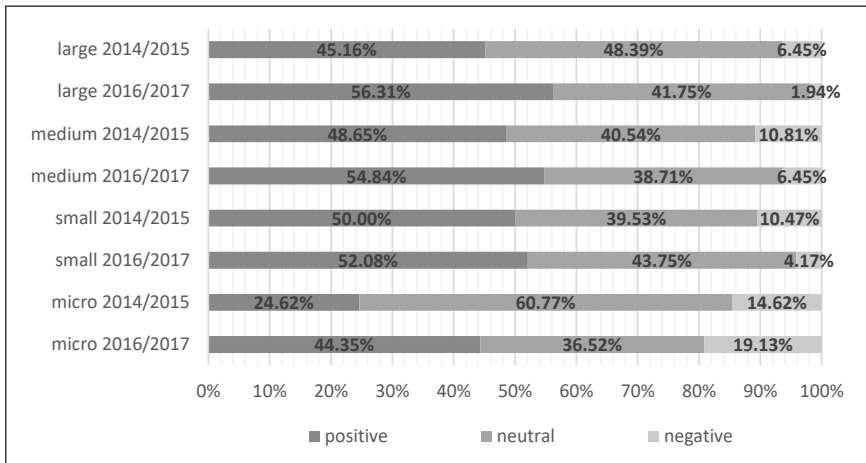
3.	positive	“Feedback is essential. Anyone who perceives control as a “warning” of what he/she does good or bad to move in his work and improve his performance for the future, can only gain from it. The one who sees control as criticism stagnates. Excessive control, however, is annoying. Everything should be done within the norm, and one should know the limits”.	project manager/ small market research institute/ BA
4.	negative	“This type of activity is being controlled mainly by state authorities and can be heavily fined in case of non-compliance”.	executive/ accounting microenterprise/BA
5.	negative	“From the view of a client it is always unpleasant and the consequences of the inconsistency of the employees are taken by the owner – manager, as the sole responsible person”.	owner/agricultural microenterprise/ZA
6.	negative	“I do believe that control is important, but I consider the state control negatively, based on my own experience”.	owner/trade microenterprise/PO
7.	negative	“Control by the managing company. Constantly filling of reports that resemble but are demanded by other departments. Everything can be obtained through the bookkeeping that happens abroad”.	accountant/courier microenterprise/BA
8.	negative	“Negative, because of my experience. Controls take time, and since I try to keep everything in order, it is often unnecessary bureaucracy”.	owner/solarium microenterprise/PO
9.	negative	“External control is not pleasant to me; I think it is an intimidation. When it comes to controlling compliance within a business, it’s ok”.	executive/ consulting microenterprise/BA
10.	negative	“State authorities control often hinders free entrepreneurship”.	owner/catering microenterprise/TN
11.	negative	“Mostly, these are state control bodies (Slovak Trade Inspection, Bureau of Customs, etc.). This is most of the time bullying on their part as I abide all laws. Still, they are constantly trying to find something to sanction me”.	owner/trading microenterprise/BB
12.	negative	“Controls are looking for shortcomings that I do not consider being essential. We have always been able to remedy or eliminate them in a short time. I see it unnecessary and exaggerated to entrepreneurs who try to work on the labor market self-help and employ people in their field”.	executive/small construction company/NR
13.	negative	“Given that we have a Korean management => lack of information, poor cooperation”.	production planning manager/ large automotive supplier/TN

14.	negative	“Since the results we report to senior management and the methods we use to measure the results are quantitative, these results do not always match the assumed situation, so I have to always justify them and develop an action plan that is sometimes very demanding”.	logistics manager/ medium-large logistics company/ TT
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Source: own work.

At first glance, the explanation of this state would seem very simple. One of the main reasons why anyone starts doing business is autonomy. Simply put, man has everything under control – alone. Therefore, suddenly losing control and being exposed to it is an unpleasant feeling for every entrepreneur. Fortunately, we also have justifications that can provide us with deeper insight and, if necessary, to disprove prejudices (Tab. 3, rows 4-11). As we can see from these selected justifications, a common problem is that the control subject often creates negative attitudes in respondent’s views. Another often-referred problem is the waste of time.

Figure 5. Changes in attitudes to control from the view of business size



Source: own work.

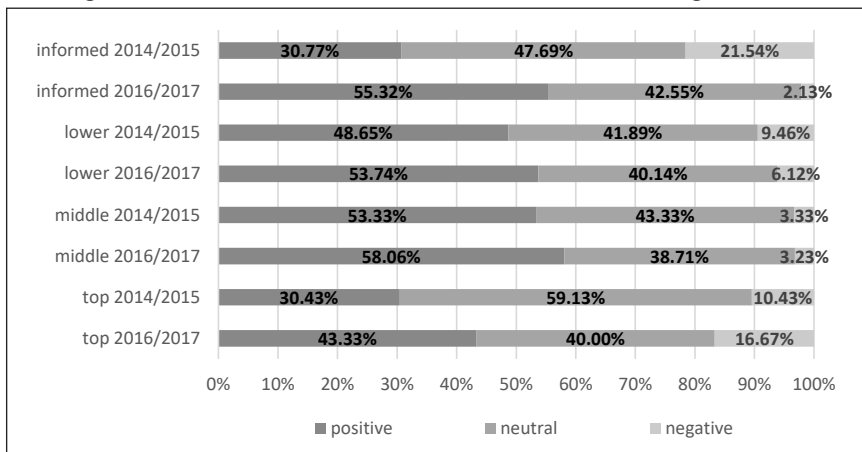
As can be seen in Figure 5, there is a clearly shift toward positive attitudes in every single category. The most significant increases were in the category of microenterprises where the number of responses “positive” increased by almost 20 percentage points and in the large enterprises category, where they increased by more than 11 percentage points. The shift was also recorded in negative responses, but not just in the good direction. While other categories experienced a decline in negative attitudes, microenterprises had a poorer score of almost five percentage points than in 2014/2015. Except for the small business category, neutral attitudes have been reduced.

The second chosen characteristic is the level of management in which the respondent operates. In addition to top, middle and lower management, it also includes a category of informed employees. These include accountants, economists, control staff, etc. who have access to the valuable information needed for our research. The assumption should be that the most positive attitude to

control should have the top managers, as they have mostly gone through several positions, and should be managerially mature enough to look neutral to positive on control. In our case, however, there are several top-managers within the micro-businesses whereas their executives and owners have to be considered top-managers, since they only have the power to make strategic decisions. Seventeen of the twenty respondents with a negative attitude were such cases. Results according to the level of management are shown in Figure 6.

Other negative attitudes, which were measured in higher categories than microenterprises are listed in Table 3 (rows 12-14). As we can see on the justifications, negative answers are one more time associated with external control and time wasting. The Korean management justification, however, can be attributed to bad communication within the company.

Figure 6. Changes in attitudes to control from the view of level of management

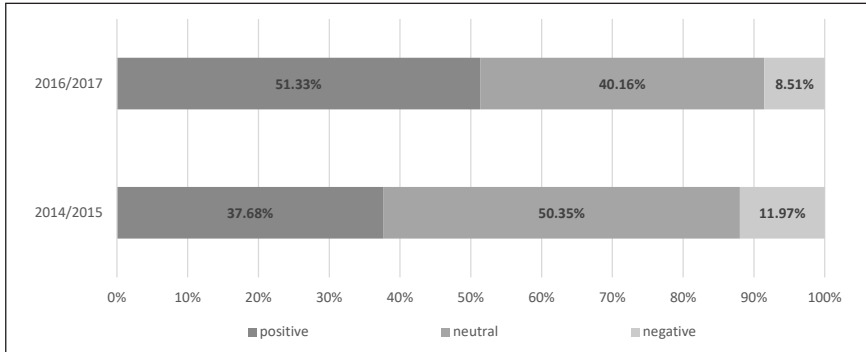


Source: own work.

Even in this case, we see clear shifts towards a positive attitude towards control. The highest rise in value was in the category informed employees, by more than 25 percentage points. These employees also had far less negative attitudes (21.5% vs. 2.1%). Significant changes, however, are seen in the case of top management and negative attitudes, which grew by more than 6 percentage points. Once again, this is the result of microenterprises.

As we have already mentioned, questions about control attitudes have been addressed also earlier in 2014 and 2015. We can therefore compare the views of both samples (Fig. 7).

Figure 7. Changes in attitudes to control in role of the object of control



Source: own work.

By comparing both results, it is clear that negative attitudes to control have decreased. While the absolute figures are the almost the same (34/32), their share in the overall sample decreased significantly from 11.97% to 8.51%. A bigger representation of large companies in the 2016/2017 sample may play a role here. On the other hand, we see a significant increase in positive attitudes to control from 37.68% to 51.33% and a certain decrease in neutral attitudes from 50.35% to 40.16%. According to the given ratios, the order of the most frequently mentioned attitudes changed from neutral – positive – negative in 2014/2015 to positive – neutral – negative in 2016/2017.

## 5. Conclusion

As we point out in this paper, there are still many differences between the theory and practice of organizational control in the Western and Eastern countries. While self-control plays an important role in Western countries, formal control is essential in Eastern countries. While the Western approach expects man’s motivation to achieve the best performance, many people in the eastern countries require the certainty of supervision to ensure that they do not make a mistake. In this regard, however, it is very important to point out that it is necessary not to take the eastern approach as something obsolete, overwhelmed, and totally wrong. It brings insight from other cultures, it has totality in its genes (expectation of discipline), but it can also be applied in Western countries in different situations. Crisis is one of such situations.

The preliminary results of our research show us that the attitude towards the management function of control in one of the countries of Eastern bloc really changes. In dozens of justifications from managers and informed employees, we see a growing understanding of the importance of control. We even see that they understand that control may them personally bring benefits in the form of reduction of errors, prevention of damage, learning from their own mistakes or new knowledge.

This progress, however, does not mean an ideal state. The problem continues to be external control by state organizations. In many cases, they were precisely named the reason for the respondent’s negative attitude to control. Bureaucracy, demanding information they already have, or finding errors at any cost are the most common issues that respondents are stating in their justifications. Here the problem can be partially solved in the future by electronization of the state administration, thanks to the databases to which different control institutions will have access.

However, it will be important for institutions to be prepared to use this access and not to impose obligations on entrepreneurs. The staff of these institutions will be a key factor.

Another problem remains the micro-entrepreneurs. Again, we have noticed that some micro-entrepreneurs think they cannot be an object of control, as they do not have superiors. In some cases, we see a lack of knowledge about control. Although their positive attitudes have increased significantly, growth has also been seen in negative attitudes. Often, they are only objects of state control, but they cannot sufficiently utilize it. Even in the case of external control, there is an opportunity to learn important information that can greatly assist in doing business in the future. It is important to overcome themselves and not to be afraid to lose control for a short time.

We see a very positive development in the categories of informed employees due to a significant decline in negative attitudes. As one reason, we see the fall of the stress caused by the financial crisis. Employees in this category were not only very busy in the financial crisis but also scrutinizingly supervised by managers or external institutions.

In the future, we expect further reductions in negative attitudes to management control. It is the state administration, on which it will matter to what extent these attitudes will fall. We also assume that negative attitudes in micro-entrepreneurs will decrease by better education in the area of management and control.

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