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SYSTEM APPROACH TO THE FORMATION OF ENTERPRISE PERFORMANCE MANAGEMENT STRATEGY BASED ON BALANCED SCORECARD METHODS

Summary

The paper reveals the peculiarities of the application of the system approach and synergistic effect to enterprise performance management. The main evolutionary milestones of the theory of management, as well as principles and stages of performance management are defined. The authors formed a three-dimensional process-functional and personal model of enterprise performance management. The algorithm of formation and implementation of the policy of enterprise performance management is disclosed. The two-level model of implementing the methodology of balanced scorecard for the formation of the effectiveness management strategy of the enterprise is constructed. Also the main functional elements of a balanced scorecard system for managing the effectiveness of the enterprise and a strategic map of their application in

accordance with the principle of "management by objectives, evaluation – by results" are defined.

Introduction

The issues of managing the performance of economic activity of enterprises become particularly acute in conditions of stagnation of their development and crisis of the national economy. The country's way out of the protracted economic and financial crisis and the restoration of trends of sustainable socio-economic development require the search for new approaches to the organization and implementation of management activities at all levels of economic management.

Problems of improving the performance of management have always been in the center of scientific interests of scientists from different countries, including M. Armstrong, R. Inglehart, E. Mayo, A. Maslow, A. Fayol and others. In modern domestic science in the works of A. Goncharuk, A. Kutsenko, N. Lazareva, I. Tadika the theoretical and methodological aspects of enterprise performance management are considered.

In general, business performance management serves as the end result of such activities. This requires at each stage of the enterprise's development effective management and achievement of maximum profit. Management must constantly implement a deliberate process of managerial influence on the activities of the enterprise and its individual units to ensure the sustainable development of the enterprise as a whole. This influence is carried out in the process of applying sound management decisions, which are taken on the basis of the balanced scorecard.

The performance and productivity of economic activity are inextricably linked to the processes of management and decision-making in the short and long term. Enterprise management is carried out in all spheres of such activity. However, the final result depends on the ability of management to foresee the consequences of its decisions and choose the most optimal solution out of all possible alternatives. This will ensure not only the result, but also the maximum effect of management and is the basis of the methodology of enterprise performance management.

In general, the internal economic policy of the enterprise includes separate sections. The content of each section is aimed at the development and implementation of internal production, financial, investment, marketing and human resources policies. This content is presented in the form of certain concepts and strategies aimed at the implementation of short-, medium-, and long-term objectives. However, the development of such documents almost always lacks a section or subsection in which the policy of enterprise performance management is clearly formulated.

Therefore, the presence of a clear, purposeful strategy for the development of management activities and improve its effectiveness and performance, along with strategies for financial, economic and social development of the

enterprise, is an important condition for improving the effectiveness of the enterprise. Given the experience of world management practice, we note that the development strategy of enterprise performance management should be developed for at least 20–25 years and constantly adjusted depending on changes in external and internal environment. The policy of performance management should become an integral part of the general internal social and economic policy of the enterprise. It should be based on the most effective methods and tools of modern management and innovative management technologies.

Despite the multifaceted and important scientific developments in this area, there are currently no thorough works on a comprehensive approach to the organization of performance management on the basis of balanced scorecards of financial and economic activity of such enterprises. This prompted the authors to write this work.

Part 1. Systematic approach to the formation of enterprise performance management policy: evolution, principles, stages

The first steps in the development of managerial thought are associated with the name of F. Taylor (1865–1915). It was he who first applied the scientific principles of management and transferred the technocratic approaches of engineering to the management of the production process by intensifying the labor of workers, using special equipment and conveyor technology. F. Taylor's ideas were continued by G.L. Gunn, F. and L. Gilbert, G. Emerson and G. Ford, who were successful managers and effectively applied their scientific ideas in practice [9, p. 24; 21, p. 36].

The second most important contribution to the development of managerial thought was made by A. Fayol (1825–1925), who laid the foundations of management in its classical form [9, p. 25]. He developed the principles of management, defined the main management functions, and the principles of building management structures [2].

The third breakthrough in the development of management science occurred in the late 1930s and is associated with the emergence of the school of "human relations," which used the achievements of psychology and sociology in management. The representatives of this school: M. Parker, F. and E. Mayo (1880–1941). F. Mayo [13] with the help of the famous Hawthorne experiment was able to prove that besides material and technical conditions in production and improvement of techniques and technology, the nature of human relations in a labor collective has a great influence on labor productivity. Along with this, A. Maslow (1908–1970) [12] revealed the mechanism of human motivation through scientific research.

Later, these ideas were continued in the behavioral sciences. In continuation of this theme, the behavioral scientists K. Argyris, R. Likert, D. McGregor, and F. Herzberg studied various aspects of social interaction, motivation, the nature of power and authority, communication in organizations, and leadership in the 50-60s. It was in the 50's and 60's that this direction was continued by the

development of the theory of organization as a socio-technical system. The systemic approach (C. Barnard (1886–1961) and L. Bertalanffy (1901–1972), in contrast to one-dimensional theories that considered only one side of management, became a synthetic, comprehensive view of management. The system approach considers any organization or enterprise as a socio-technical system, actively interacting with the external environment [9, p. 26–29; 21].

When assuming that the system is a set of interrelated elements (subsystems) that form a single whole and interact to achieve the goal [19, p. 26], then the enterprise as a system may include the following elements (subsystems):

- support subsystem;
- production or operating subsystem;
- control subsystem.

The systematic approach allowed the conclusion that the joint functioning of heterogeneous interrelated components generates qualitatively new properties of the system, resulting in a synergy effect ($2 + 2 = 5$). The doctrine of synergetics, as the interaction of the elements of a complex system, began to be studied by I. Prigogine [18], who headed the so-called Brussels School at the turn of the 1960s and 1970s of the 20th century.

The term "synergetics" was introduced in 1969 by Hermann Haken, head of the Institute at the University of Stuttgart, to denote a scientific field that did not yet exist at the time. The new field of research was needed to study complex systems in order to explain how the interaction of different elements forms structures at the macroeconomic level [17; 22].

Another impetus to the development of managerial thought in the 50–60s was the introduction of modern quantitative methods for substantiating managerial decisions. The methodological basis of this direction is based on the use of mathematical methods, computer technologies in the management process. In the 1970s, the need to enhance the adaptation of enterprises to the changing environment emerged in global management. This was expressed in the general spread of strategic management, the development of long-term plans, the subordination of the internal environment to the implementation of the adopted strategy, which provides a competitive advantage.

In the eighties of the last century the significance of "organizational culture" as a powerful management tool was discovered. Studies have shown that the cultural stereotype of behavior in an organization, a person, his consciousness and culture are the main potential of any type of organization: an industrial enterprise, a commercial firm, a state organization. Further globalization of the economy, in which Ukraine has also joined, has led to an increase in the international nature of management and requires its continuous improvement.

The results of the study of the problems associated with improving the performance of the management process of industrial enterprises are reflected in the works of foreign and domestic scientists of different periods. Thus, performance management at the macro-level was studied in Soviet times by

B. Smekhov [20], who linked performance management with an increase in the performance of social production.

Representatives of foreign scientific schools link performance management with human resource management and improving the performance of their work. Thus, M. Armstrong [1] defines performance management as a continuous process of improving the personnel management system, which includes such interrelated elements as: planning to improve team effectiveness and personal development of an employee; management of individual and collective behavior of employees by setting goals, controlling their achievement and providing feedback; analysis, evaluation and adjustment of tasks related to the management of economic performance of enterprises. S. Hatfield [5] believes that performance management is the process of creating working conditions in which an employee can demonstrate the best abilities. And Houldsworth E., Jirasinghe D. [6] and E. Neely [16] add to this the necessity of "human capital management on the basis of leadership qualities, the system of staff motivation and conditions for staff development." The authors agree that performance management is a cyclical process, the main purpose of which is to increase performance at each level and stage of development of the enterprise. However, there is no consensus among the authors on the identification of the main cycles of this process. M. Armstrong identifies six cycles: goal setting, planning, analysis and evaluation, monitoring, revising goals, and providing feedback [1]. Houldsworth E., Jirasinghe D. [6] distinguish 4 cycles: E. Holdsworth and D. Girasin [6] allocate 4 cycles: planning, realization of plans, check (control) and correction (improvement) of plans. E. Neely [16] divides performance management into 5 cycles: planning, implementation, evaluation, training and reward (encouragement), and points out the need to develop human resources.

In the development of these ideas J. Graham [4] believes that performance management combines two areas: personnel management and organizational management. These areas depend on: market requirements, opportunities for personnel development, management by objectives and evaluation of results, comparison of results with expectations and so on. In unison with J. Graham, the second scientist – S. Hutchinson [7] offers the author's model of performance management, which is based on personnel management and organizational effectiveness.

In contrast to foreign authors, domestic scientists consider the process of performance management through the process-functional prism. Thus, A. Kutsenko reveals the essence of enterprise performance management, characterized by "...purposeful operational regulation of activity to ensure compliance of the actual state of the enterprise with the specified target parameters." [10, p. 21]. In the development of A. Goncharuk [3, p. 27] emphasizes the functional component of this process (goal setting, planning, evaluation, analysis, control, etc.), which ensures the development strategy, taking into account the influence of internal and external factors. The author

refers to resource provision and competition. N. Lazareva has a wider approach that combines elements of the management process (goal, situation, problem and solution) with management functions (goal-setting, planning, organization, motivation, control), which are influenced by internal and external environmental factors [11, p. 106].

Each approach has both strengths and debatable sides. The authors of the study believe that when defining the elements of the management process it is advisable not only to define the element "decision", but also to detail the process of its development, adoption and implementation, as well as to add such an element as "the consequences of management decisions". As for the functions of enterprise performance management, given the focus on long-term activities, it is advisable to add the functions of forecasting, monitoring and adjustment. Also, since the management process itself is closely related to the activities of management personnel, it is important to ensure the effectiveness of their activities through the selection, use, development and promotion of employees.

Thus, it is believed that enterprise performance management should not be considered in the plane, but in the tridimensional measurement, which depends on a mutually consistent combination in a three-dimensional model of vectors such as "management process", "management functions" and "personnel management" (Figure 1).

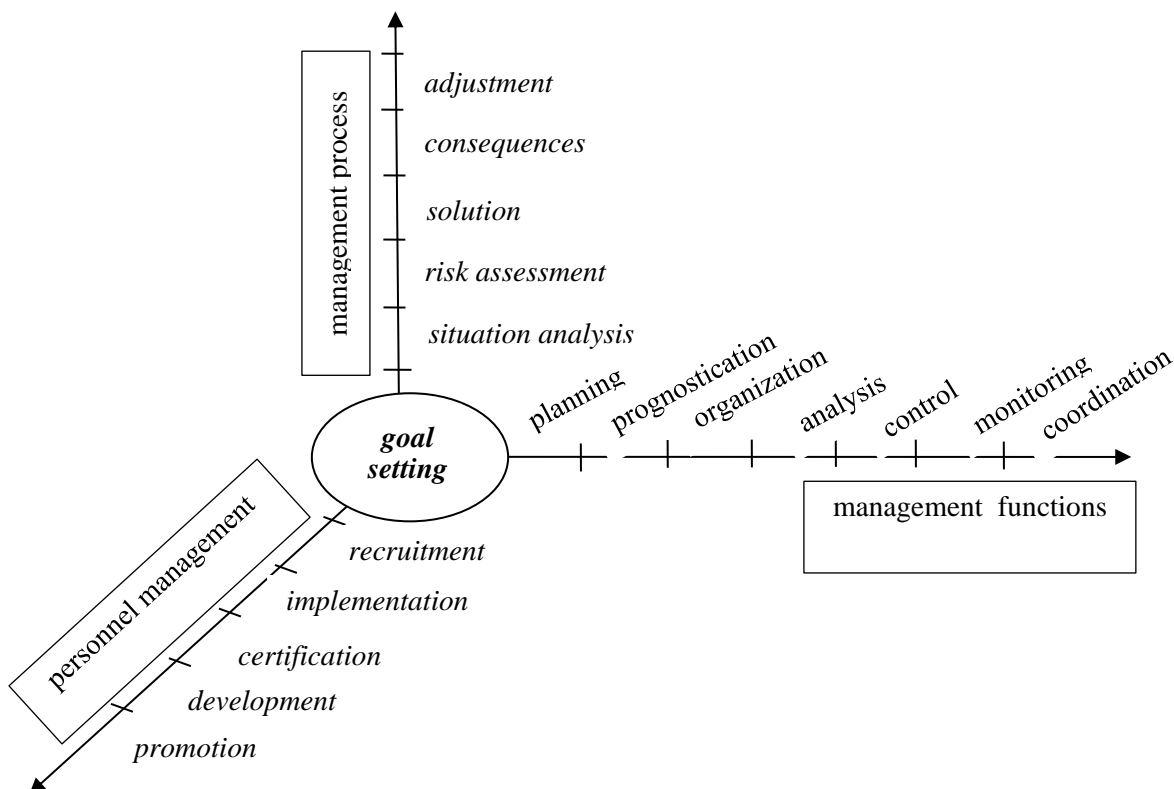


Figure 1. Three-dimensional process-functional and personal model of enterprise performance management

Source: compiled by the authors

The model is based on goal-setting, and each of the vectors has a complex structure described by a set of corresponding elements, namely:

1) management process: situation analysis; risk assessment; development, adoption, implementation of decisions; tracking the consequences of management decisions; adjustment of management decisions;

2) management functions: planning; prognostication; organization; analysis; monitoring; control; goal adjustment;

3) personnel management: personnel recruitment (vocational guidance, professional selection, professional adaptation); service and performance of job duties; certification (assessment of compliance with the position); development (training, retraining, retraining); promotion (motivation and incentives).

Thus, the system-logical relations between the concepts of "management process", "management functions" and "personnel management" were defined. However, it is important to study both the main functions and organizational structure of performance management, as well as methodological approaches to the assessment of the process itself – performance management, and its performance indicators – the effectiveness and performance of management.

In general, the paper proposes the author's definition of this phenomenon at the enterprise level, namely: "performance management is a purposeful dynamic process of business management, which has a systemic nature, indicates the quality of management and is a determinant of sustainable financial and economic development." Note that the effectiveness of management and productivity of management are the final results of this process, measured by various indicators.

The authors of this paper believe that the strategic direction of business performance management enterprise should be based on the following principles:

- consistency of performance management policy with the general strategy of socio-economic development of the enterprise;
- coherence of internal performance management policies with external policies and the external environment;
- internal balance of policy goals and results;
- compliance with the conditions for implementing the policy of managing the effectiveness of available resources (financial, material, human);
- the effectiveness of performance management policies.

That is, performance management should be considered as a managed subsystem in the structure of management of economic activity of the enterprise. The formation and gradual implementation of the policy of strategic performance management of the enterprise is the main condition for the effectiveness of such activities. That is, the internal policy of enterprise performance management is interconnected with the entire enterprise management system and determines the effectiveness of its activities.

At the same time the decisive importance in the performance management of an industrial enterprise is a combination of the principles of "management

by objectives" and "evaluation by results", which allows complete control over the process of making management decisions, as well as their quality and effectiveness to achieve optimal results. Accordingly, at the initial stage, it is necessary to establish the parameters of the expected result and the conditions for its achievement.

In general, it is proposed to form the policy of enterprise performance management on the following stages (Figure 2).

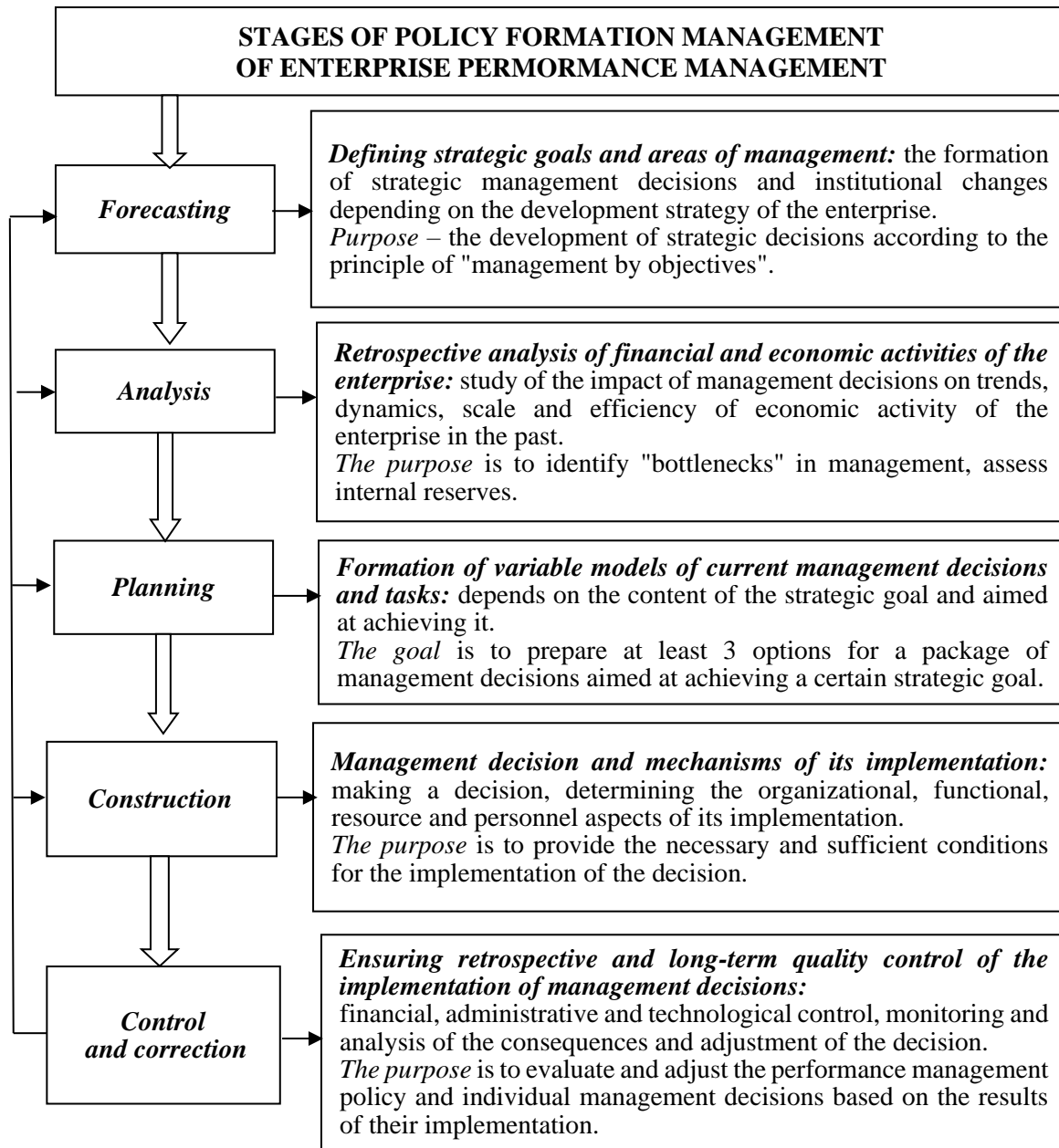


Figure 2. Algorithm of formation and implementation of the policy of performance management of the enterprise

Source: compiled by the authors

In order to make a particular management decision, its motivation, that is, the general line of economic activity, is necessary. In this regard, the management of economic activity includes the following stages:

- setting a strategic development goal;
- analysis of external and internal factors of the enterprise;
- development of a tactical vision and several options for management decisions;
- making the most acceptable and profitable management decision;
- definition of a set of mechanisms and tools for the implementation of management decisions;
- monitoring, control, evaluation of the consequences of management decisions;
- adjustments, or mechanisms, or management decisions, or previously defined goals.

Only solutions that protect against contingencies, adapt to changing market conditions and minimize possible risks can bring success to a company. Determining the strategy for further development, the company, in accordance with the available resources and the life cycle in which it is located, should choose the main direction of economic activity: development, stabilization, revival or liquidation, or focus on a complex combination of these directions.

At the beginning of the life cycle the company is at the stage of development, it is focused on increasing the scale of economic and investment activity within a certain sphere of activity, or on gaining a place in the market of new products. This sphere of economic activity is accompanied by high risks and requires significant investment resources.

During the maturity stage, it is advisable to make management decisions aimed at stabilization, the goal of which is to gradually improve the company's position in the market within the framework of its mission and development strategy.

The focus on revival requires the economical use of available resources, strengthening the market position of the enterprise by abandoning economic activities that are detrimental or excessively unprofitable. This course is realized by refusing to produce certain goods, withdrawing from markets for these goods, abandoning inefficient technologies, etc. This course cannot be long-term. It solves only local problems in the short term.

For an enterprise that is in a state of decline and requires revival, the most appropriate is a combination of these activities. It is necessary to focus on expanding the market segment and increasing sales of new products, combined with the exit from areas where there is a decline in demand, with the closure of relevant industries. At the same time it is necessary to take measures to save resources, introduce new technologies and eliminate unprofitable production. All this requires sound management decisions, the basis for the development and adoption of which should be the application of the concept of a balanced

scorecard system (BSC) through the control of key performance indicators (KPIs).

Part 2. The strategy of enterprise performance management on the basis of a balanced scorecard

The Balanced Scorecard System (BSS) defines strategic goals, criteria, indicators, strategic maps and initiatives in four prospective areas: finance, customers, internal business processes and personnel development. Therefore, these perspective areas are the basis for the determination of BSS for performance management, which we propose to apply at the enterprise. Changes in the organizational and functional management structure of the enterprise are taken into account.

It should be noted that the experience of application of these indicators for enterprise management abroad and in Ukraine is generalized by scientists [8; 9; 17]. The work will determine the perspective directions of enterprise efficiency management on the basis of the main perspectives and key functional elements and performance indicators.

According to the authors, the promising areas for enterprise performance management are: financial management; material resources and production process management, customer relationship management and human resource management. Therefore, the authors of this study are impressed by M. Nasonov's [15] suggestion to form a two-level model of BSS performance management, including a basic set of perspectives and a superstructure of their projection on the performance management system. This model would look like a structural-logical diagram (Figure 3).

For a medium-sized compact industrial enterprise with a functional-linear organizational and management structure, improving the management system of its activities based on the concept of BSS is a necessary and sufficient condition for the withdrawal of the enterprise from the financial crisis.

The list of the main functional elements in the context of the objectives of the criteria and indicators that characterize the state of economic activity of the enterprise and affect the achievement of the main strategic goal (sustainable development) is grouped in Table 1.

The complexity of the processes associated with the change of the performance management system based on the concept of BSS, provides the possibility of its phased implementation based on the priority of the pilot project implementation. At the beginning of the project, it is advisable to develop a strategic map of the enterprise. The basis of competitive advantage for the company is human potential.

That is, the key condition for the formation and development of the enterprise today is the presence of professional staff and highly qualified employees.

Building a balanced scorecard enterprise should solve the problems of managing specialists and their knowledge at all prospective levels.

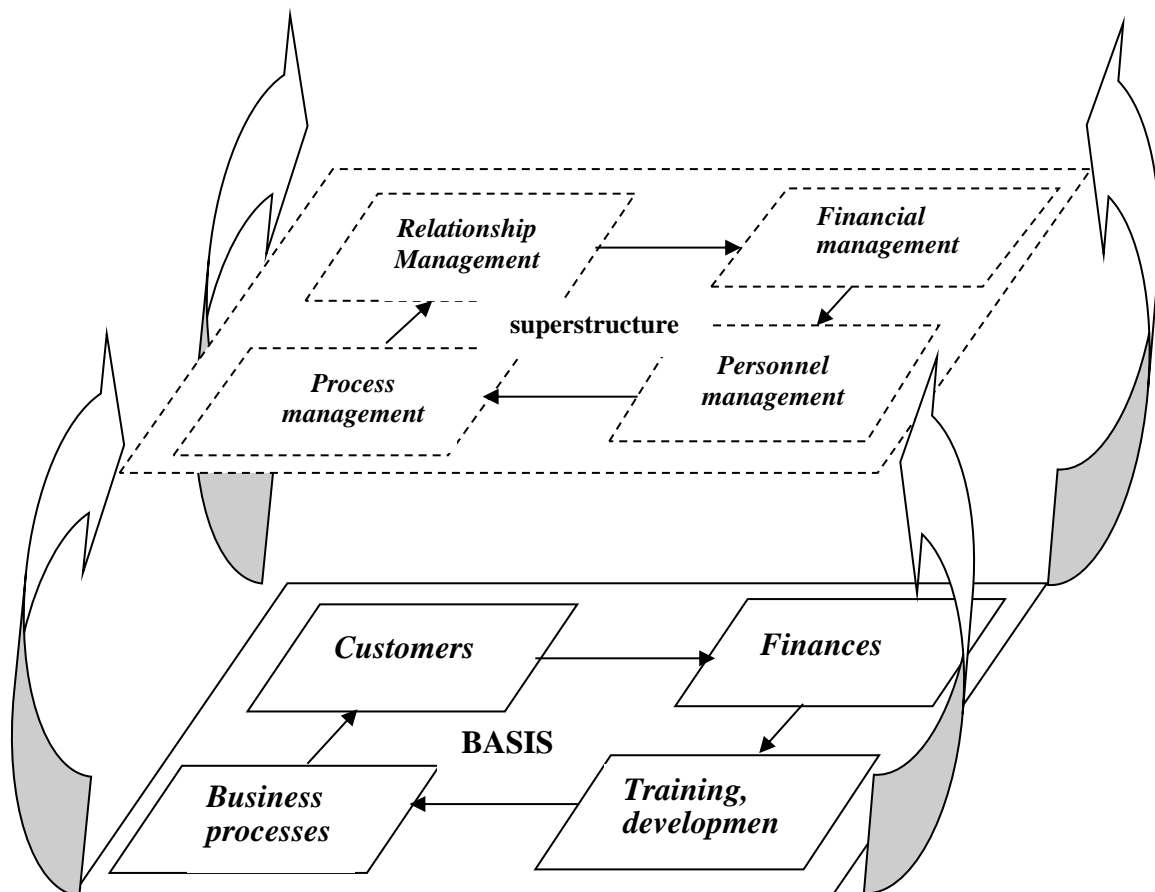


Figure 3. Two-level model of implementation of BSS methodology for the formation of enterprise performance management strategy according to

Source: [15]

To implement the concept of BSS for the company, taking into account relevant perspectives, it is necessary to form a tree of strategies with consolidation for performance management and build a strategic map for each area, the general view of which is shown in Figure 4.

Creating a balanced scorecard for the company can be divided into the following stages:

stage 1 – formation of a unified vision of the prospects for the development of the enterprise;

stage 2 – formalization of the vision of the future enterprise in the form of interrelated goals;

stage 3 – decomposition of goals and formation of tasks in the areas of measurement (growth strategy and productivity strategy);

stage 4 – determination of KPIs for measuring assigned tasks;

stage 5 – definition of target values for selected KPIs;

stage 6 – development of measures necessary to achieve the goals of the enterprise.

Table 1

**The main functional elements of BSS
for enterprise performance management**

Prospects (basic / management)	Objectives	Criteria	Indexes	Initiatives / responsible
Finance / Financial Resource Management	Income growth Ensuring a stable income	Profitability Increase in economic value added Cash flow	Profitability, % Profit, UAH Economic value added, UAH thousand	Financial Plan / Deputy Economic Affairs, Controller
Clients / Relationship Management	Maintaining and expanding the customer base	Availability of loyal customers and suppliers Customer satisfaction Level of market development	Loyal Customer Index; Customer base expansion index; Customer satisfaction index Market share, %	Survey, questionnaire/ First Deputy, Marketing Department, Controller
Processes / Process management	Increase of production performance Ensuring an uninterrupted supply of raw materials and supplies	Production growth Decrease in costs Improved quality of products Innovative technologies	Finished products, t Commodity products, UAH Cost of production, UAH / t Capacity utilization factor Quality of products compared with competitors, %	Business Plan, Production Program / First Deputy, Deputy Technical Officer, Chief Technologist, Controller
Training and development / Personnel management	Improving the culture of management and human resource performance.	Increase of labor productivity Motivation of employees Favorable working conditions	Labor productivity, UAH / person Staff turnover, % Share of young professionals, %, The level of wages compared to competitors, % Employee satisfaction index, %	Questionnaire / Coach Controller, Human Resources Department

Source: compiled by the authors

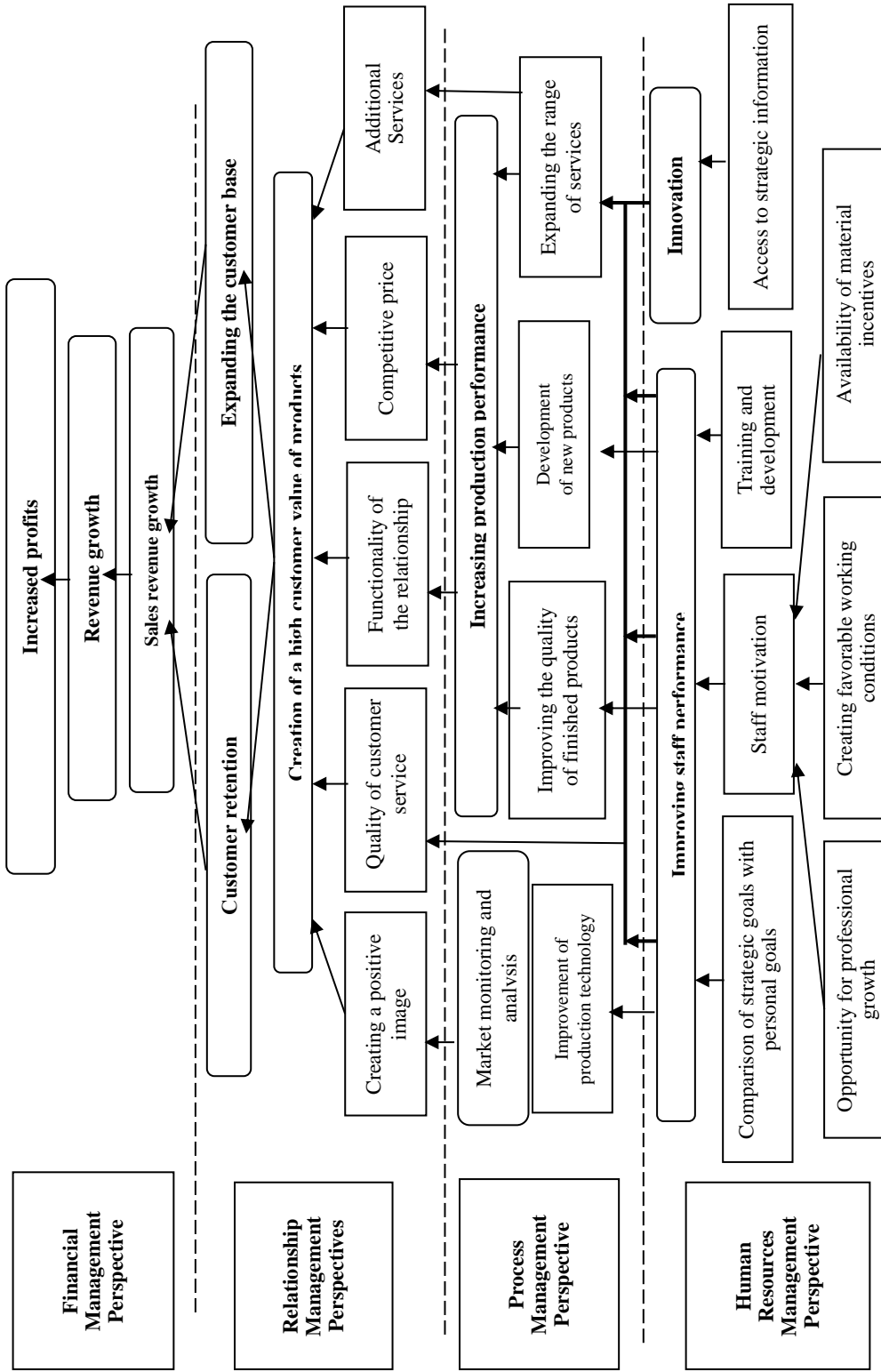


Figure 4. Strategic map for the implementation of the BSS concept for enterprise performance management

Source: compiled by the authors

With regard to the subject of this study, the key performance indicators should include the following indicators: the number of developed and tested management decisions; the consequences of management decisions. Relevant strategic initiatives will be to improve the level of implementation of management decisions at various levels of government.

Thus, to form a strategy for managing the results of economic activity of an industrial enterprise it is necessary not only to carry out effective and efficient management separately in each direction of its economic activity and in each division, but also to approach each structural element of the enterprise systematically. For this purpose it is reasonable to consider four main perspectives: finances, customers, business processes and personnel training and development. It is this orientation of managerial staff towards these perspectives within the framework of the BSS concept that allows the administration to formulate a clear, achievable and beneficial strategic goal. This will ensure the formation of effective mechanisms and tools to achieve this goal, taking into account all major aspects of the enterprise.

In this case, the company must have a team of responsible, highly qualified professionals with an adequate vision of the prospects for the development of the enterprise. The team should be able to develop and implement a strategy for the development of the enterprise based on BSS and the definition of KPI, as well as the development, adoption and monitoring of the consequences of appropriate management decisions.

Algorithm of formation of the management system of the results of economic activity of the enterprise, which focuses on the goal and includes all the necessary steps to achieve it, namely:

- vision of general prospects and goals of enterprise development;
- formation of a responsible team of professionals;
- a description of the criteria and indicators for all perspectives;
- control of activities using balanced KPIs at all levels of management (operational, tactical, strategic), including direct executors (officials);
- evaluation and correction of activities at each stage.

This algorithm is schematically shown in Figure 5.

Thus, the Balanced Scorecard system provides purposeful monitoring of activities of each division and each officer involved in management. It allows predicting and anticipating problems and organically combining levels of strategic and operational management in the process of controlling financial and non-financial KPI of the enterprise.

The degree of achievement of strategic management goals, the effectiveness of both the enterprise as a whole and each of its structural units and employees are determined by key performance indicators (KPIs). In addition, these indicators should be closely related to the motivation of employees. Indicators with their targets and thresholds are determined in such a way as to maximize coverage of all critical areas and sectors affecting the implementation of the development strategy of the enterprise.

The concept of BSS at the enterprise should be implemented with the involvement of specialists from the division "Controlling Services" in close cooperation with the planning and financial department. This will ensure the introduction of planning processes, tracking results, analysis, and monitoring in order to further adjust management decisions, plans, and possibly the strategy itself. In doing so, it is extremely important to unite the efforts of all structural units and all officials who head them around the main goal outlined in the Strategy.

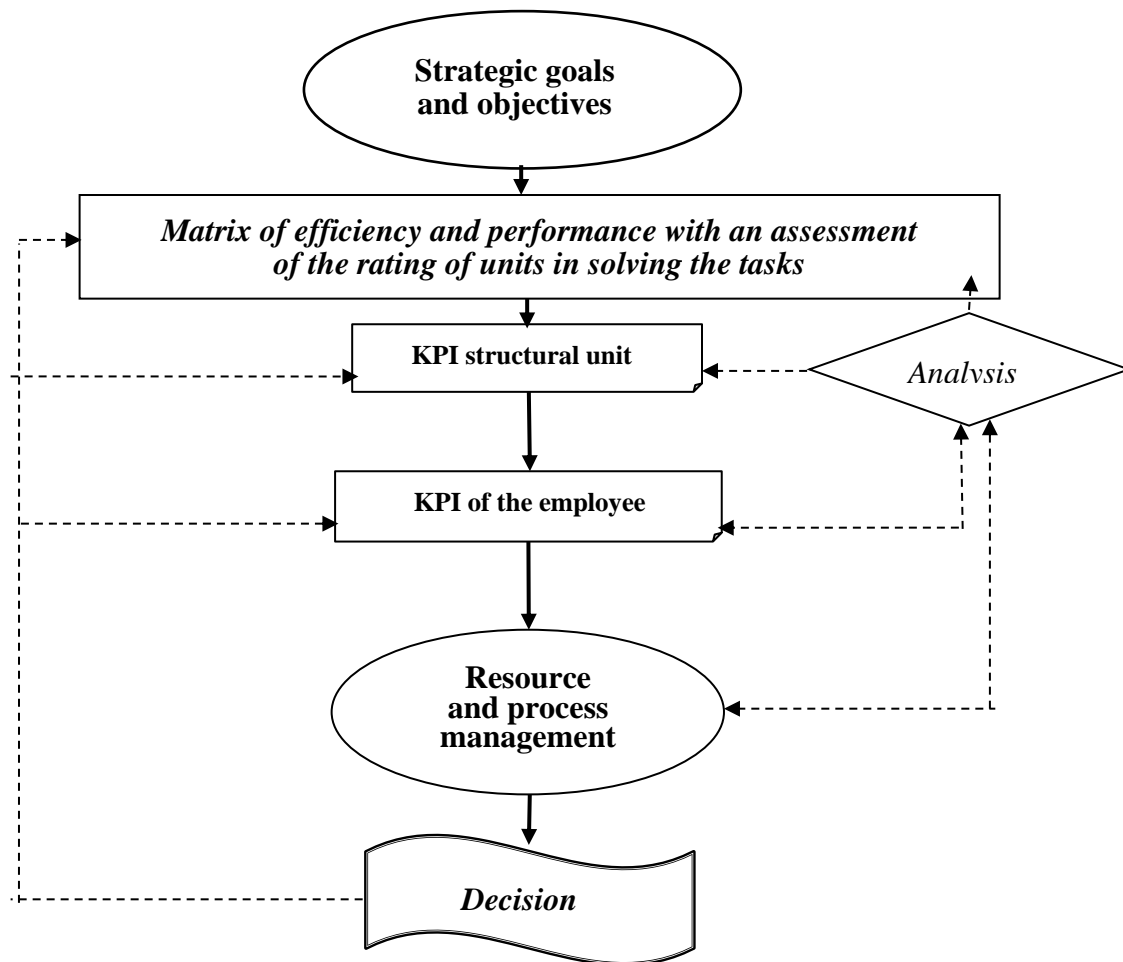


Figure 5. Algorithm of strategic performance management system functioning based on the use of KPIs

Source: compiled by the authors

In the implementation of the strategic management of enterprises according to the methodology of BSS not only financial and economic indicators are taken into account but also such non-financial components as: personnel, internal processes, innovations, relationships with customers and suppliers, etc. Therefore, BSS is a system of coordinates, which should determine the strategic direction of the company and monitor its condition in the key areas and indicators in the field of finance, customers, processes and staff development.

Conclusions

In general, this paper substantiates that the determining factor in the performance management of an industrial enterprise is the formation of appropriate internal policies that combine the principles of "management by objectives" and "evaluation by results". This allows complete control over both the process of making management decisions, as well as their quality and effectiveness in obtaining optimal results. Therefore, the basis for making and justified management decisions should be the application of the concept of balanced scorecard (BSC). This makes it possible to take into account all available resources and risks and ensure strategic development through the control of key performance indicators (KPIs).

Finally, the use of the methodology of the balanced scorecard allows to evaluate the effectiveness and performance of the management system of the enterprise and carry out strategic planning and forecasting of its development. It was found that the promising areas of performance management of economic activity of the enterprise are: financial management, process management, customer relationship management and human resource management.

We propose a two-tiered model of BSS enterprise economic performance management, which includes a basic set of perspectives (finance, customers, processes and training and development) and superstructure (financial management, process management, relationship management and human resource management).

The authors proposed to develop Strategy Maps for the company and its units at the beginning of the Development Strategy of the enterprise. It is substantiated that the introduction of a balanced scorecard to manage the performance of the enterprise will solve the problems of managing specialists and their knowledge at all prospective levels of management.

The choice of the development path of the enterprise, of course, is the prerogative of its owners and management. Research in the paper has shown that in today's realities to manage the performance of the enterprise means to manage its viability. The most effective is a systematic approach and the use of a number of different methods and tools, the key of which in the work is considered a system of balanced scorecard and key performance indicators.

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