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# Mechanism for assessing the quality of production enterprise management

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**Abstract.** The article substantiates the need for periodic assessment of the quality of management. The article describes the mechanism for assessing the quality of management of a production enterprise using the ratio of working capital, profitability and liquidity.

**Keywords:** quality of management, management quality assessment.

## Introduction

The quality of enterprise management should be considered along with the quality of work and performance. The low quality of enterprise management slows its development, limits the possibilities for productivity growth. From how effective the management of the enterprise, depends on its attractiveness from the point of view of consumers, suppliers and investors.

Quality should be an integral part of management to improve the efficiency and competitiveness of the enterprise. Its improvement will provide an opportunity to improve the organization's work processes for greater performance. Therefore, it is necessary to develop and develop methods for assessing the quality of management.

## 1. The need to assess the quality of management of a manufacturing enterprise

A study by the European Bank for Reconstruction and Development notes that, in terms of the level of development of managerial skills, Russia lags behind many developed countries and countries with emerging market economies. A quantitative assessment of quality was derived from a study of four key areas: operational management, goal setting, monitoring and incentive management. Estimates obtained for Russian companies were below average in all four areas [1]. From this we can conclude that the managerial skills of representatives of domestic enterprises require improvement. To increase their level, you must first assess at what level they are now. For these purposes, an assessment of the quality of management can serve.

The quality of management has a significant impact (65-90%) on the quality of work and product quality [2]. High quality speaks for itself - the company works efficiently and effectively. Poor management quality means, among other things: unclear development directions, inefficient monitoring methods, insufficient knowledge of managers about

training needs, lack of knowledge of market reality, inability to adapt the management style to situations [3]. Therefore, it is so important and necessary to periodically evaluate it, which will give an understanding of how and in which direction it can be improved.

By assessing the quality of management is meant a discrete or continuous process that allows determining the effectiveness of the manager responsible for a particular function that ensures the activities of the enterprise, to correlate the actual results of the manager's activities with the established goals and obtain the final information as feedback for making management decisions regarding him. Assessing the quality of enterprise management is strategically important information. The task of each manager is to timely receive information on the status of the effectiveness of management at his enterprise, adequately evaluate it and skillfully use it for the successful operation of the enterprise. [4]

A correct assessment will reduce the risk of loss due to inadequate or erroneous internal processes, actions of employees of the enterprise and systems or external events, imperfections in the organizational structure operational risks. Also, the quality of management determines the current state of the enterprise and the prospects for its further development [5].

It is believed that the quality of management cannot be evaluated by any single indicator, since this concept is quite capacious and includes many factors. Therefore, it is necessary to develop an assessment model that will use a systematic approach that takes into account both individual elements of the organization and the relationship between them, as well as their impact on the environment. [6]

## 2. The mechanism for assessing the quality of management

Any process of development of a control system should begin with an assessment of the current level and identification of "pain points" that demonstrate the greatest deviation from an ideal or standard [7]. The method of management quality assessment (MQA), developed by the author, is based on the ratio of working capital, profitability and liquidity (WCPL). Its essence lies in the fact that on the basis of data on the results of the company's activities, profitability, working capital and liquidity are calculated, after which their ratio is found, based on the value of which conclusions are drawn about the quality of enterprise management [8]. MQA through the ratio of working capital, profitability and liquidity in the framework of this method is proposed to produce using the following formula:

$$MQA = ROI/WCR/K_{\text{coverage}} \quad (1),$$

where ROI-is Return On Investment, WCR-is the Working capital ratio,  $K_{\text{coverage}}$  is the coverage ratio.

For MQA, the minimum and maximum acceptable values of the assessment were established empirically, therefore, the interval in which the MQA is considered satisfactory. This interval is [0,032; 1.18] [9].

The essence of the method developed by the author is that the enterprise that decided to assess the quality of management, on the basis of its data on the results of operations, calculates the values of working capital, profitability and liquidity, as well as their ratio according to formula (1), and then, subject to that the received assessment is outside the established norm, the company checks the elements of the value chain and indicators highlighted in it, in accordance with the established priority, taking into account changes in working capital, profitability and liquidity.

The mechanism for management quality assessment is based on the method developed by the author for assessing the quality of management based on the ratio of working capital, profitability and liquidity (MQA WCPL). (see fig. 1).

The MQA WCPL mechanism provides for the following actions:

1. Calculation of indicators ROI, WCR and  $K_{\text{coverage}}$  using the following formulas [8]: [8]:

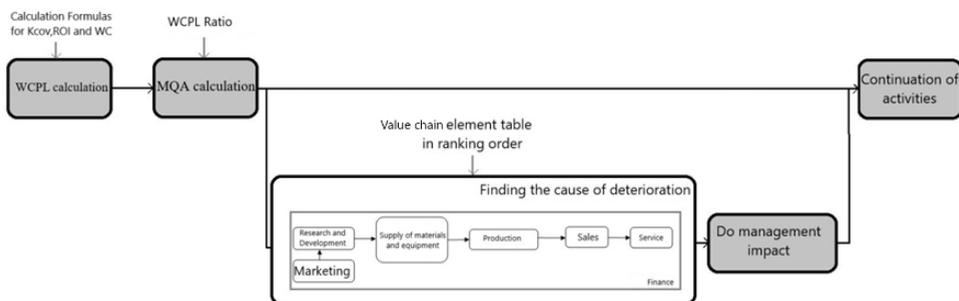
$$\text{Profitability (ROI)} = \frac{\text{Revenue}}{(\text{Inventories} + \text{AR} + \text{C}) + \text{Noncurrent assets}} \times \frac{\text{Revenue} - (\text{Production cost} + \text{Selling expenses} + \text{Other expenses}) - \text{Control expenses}}{\text{Revenue}} \quad (2)$$

$$\text{Working capital} = \text{Inventories} + \text{AR} - \text{AP} \quad (3)$$

$$\text{Liquidity (K}_{\text{coverage}}) = \frac{\text{Inventories} + \text{value added tax on purchased items} + \text{AR} + \text{STFI} + \text{C}}{\text{STBF} + \text{AP} + \text{Debt to participants} + \text{reserves for future expenses and payments.} + \text{other current liabilities.}} \quad (4)$$

where AR – accounts receivable, C – Cash, AP – accounts payable, STBF – short-term borrowed funds, STFI – short-term financial investments.

2. Calculation of the ratio of working capital, profitability and liquidity according to the formula (1).
3. Checking the ratio of WCPL for falling into a satisfactory interval [0,032; 1.18] and its elements for compliance with established standards: ROI:  $\geq 0.16$ ;  $K_{\text{coverage}}$ : 1.5 - 2.5; WCR: 1.2 - 2.0. Analysis of changes in the ratio of working capital, profitability and liquidity in dynamics.
4. If the obtained value of the ratio falls into the interval, the evaluation process is completed and the activity continues until the next management quality assessment.
- 4\*. If the obtained value of the ratio did not fall into the interval, we consider the processes and indicators of the value chain elements of the manufacturing enterprise in accordance with the established ranking procedure (based on the influence of the indicators of the main elements of the product value chain on the elements of the WCPL relationship).
- 5\*. When the reason for the non-compliance of MQA with the established norm is found, a managerial impact on it is carried out by means of the governing body of the enterprise.
- 6\*. Completion of the assessment process and continuation of activities until the next management quality assessment.



**Fig. 1.** The mechanism for assessing the quality of management of a manufacturing enterprise by the method of MQA WCPL.

Analysis of the results of the organization does not give a clear answer to the question about the level of quality management. It does not contain information about which elements have a real impact. This problem was noticed by investment analysts at the very beginning [6]. Management theorists emphasize that the results of a manager’s work cannot be

measured directly by the fact that they are expressed in terms of the organization or its unit, which is led by the manager. However, some of them believe that, despite this circumstance, management effectiveness is quantifiable. The logic of their reasoning is as follows: the higher the qualifications of managers, the more rationally the organization is built, the more efficiently the labor of workers is used, the better external and internal changes are taken into account [4]. Although the mechanism developed by the author for assessing the quality of management, although it gives an idea of the processes taking place at the enterprise and what measures should be taken to improve them, it is essentially based only on the results of the enterprise's economic activity, not covering the organizational structure of management, personal characteristics of managers, provision their main management functions, the environmental aspect of the enterprise and other factors. Thus, it can be concluded that the MQA WCPL mechanism can be used both independently and as part of an assessment model that includes a number of other elements. This issue is subject to further detailed study and may become the basis for further research.

## Conclusion

An assessment of the management quality is necessary for the enterprise in order to ensure its efficiency growth. The actions of the enterprise management are expressed in the results of the enterprise, and its quality affects the competitiveness, productivity and even the business reputation of the enterprise. The MQA WCPL method, the mechanism of which is described in this article, is one of many developed methods for assessing the quality of management. There is no universal method, most of it is based on expert assessment. Since the concept of management quality includes many factors of managerial activity, the task of developing assessment methods, taking into account all of them, remains relevant.

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