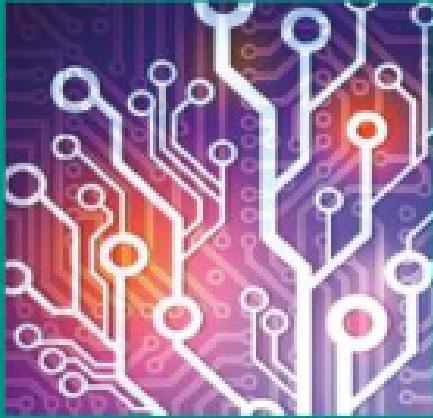


Academia Open



By Universitas Muhammadiyah Sidoarjo

Table Of Contents

Journal Cover	1
Author[s] Statement	3
Editorial Team	4
Article information	5
Check this article update (crossmark)	5
Check this article impact	5
Cite this article	5
Title page	6
Article Title	6
Author information	6
Abstract	6
Article content	7

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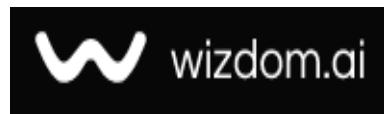
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Sustainable Performance Management Through Theory of Constraints: Pengelolaan Kinerja Berkelanjutan Melalui Teori Kendala

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Abstract

General Background Sustainable performance has become a central concern for organizations seeking to balance economic, environmental, and social objectives. **Specific Background** Prior studies emphasize sustainability performance measurement systems and managerial frameworks, yet operational limitations often hinder their practical application. **Knowledge Gap** Limited attention has been given to integrating sustainability performance concepts with theory of constraints to explain performance limitations systematically. **Aims** This article aims to analyze sustainable performance by combining sustainability management perspectives with theory of constraints as an analytical framework. **Results** The analysis shows that organizational constraints play a critical role in shaping sustainability performance outcomes and that structured performance management systems can help identify and address these constraints. **Novelty** The novelty of this study lies in linking sustainability performance measurement with constraint-based operational thinking within a unified conceptual framework. **Implications** The findings provide insights for managers and policymakers to better align sustainability goals with operational decision-making processes.

Keywords: Sustainable Performance, Theory of Constraints, Sustainability Management, Performance Measurement, Organizational Constraints

Key Findings Highlights:

Organizational constraints are central determinants of sustainability-oriented outcomes

Sustainability performance systems benefit from integration with operational frameworks

Constraint-based analysis supports balanced economic and social decision-making

Published date: 2026-02-10

Introduction :

Internal auditing is an essential focus for scientific organizations at now. Scientific reports in numerous countries have advocated for recognizing the significance of internal auditing, as it serves as an independent evaluative mechanism that enhances operational effectiveness and efficiency, ensures adherence to internal regulations, policies, and directives, and evaluates the efficacy of risk management strategies. The heightened emphasis on the efficacy of this function is predominantly associated with modern principles such as governance, risk management, and the ideals of quality and perfection that organizational management endeavors to attain. Internal control is an essential mechanism for attaining management objectives, especially those related to supervision. In the contemporary business landscape, internal auditing has emerged as a crucial support function for shareholders, management, and external auditors. The degree to which an external auditor depends on the internal auditor's work and their assessment of the efficacy of internal audit functions is contingent upon this.

The rise in global rivalry and advancements in the industrial landscape have heightened the demand for novel methods and theories aimed at enhancing corporate performance and positioning organizations among global leaders. These organizations have significant problems due to internal and external limits imposed by the industrial environment and competitive dynamics. This has led numerous companies to employ multiple strategies to alleviate these constraints, thereby enhancing corporate value through increased profitability, either by minimizing costs or by addressing existing bottlenecks, and achieving more accurate product or service cost assessments via refined measurement techniques. A key innovative method for cost calculation is the company's capacity for sustainability, which fundamentally relies on its ability to balance available economic resources with its ambitions for growth and expansion, while considering the diverse economic, social, and environmental conditions that influence it. The swift advancements in the contemporary business landscape necessitate a transformation in the strategic vision and direction of company managers. This enables them to attain the organization's established objectives while preserving market share and attracting new capital. Recently, there has been heightened interest in how companies enhance sustainable performance to sustain operations, maintain competitive advantages, and ensure financial stability amid available economic resources.

2. Goals

- A statement of the concept of internal auditing, its importance, and its relationship to the theory of constraints.
- To clarify the role of the Theory of Constraints (TOC) in setting goals and strategies for the company under study to activate sustainable performance according to its perspective .
- A statement of the effectiveness of the theory of constraints and its various dimensions in activating the sustainable performance of the company under study.

3. Hypothesis

The integration of Theory of Constraints (TOC) and internal auditing significantly impacts the sustainable performance of industrial enterprises.

4. Methodology :

The research employs a descriptive analytical approach to illustrate the influence of integrating the theory of constraints and internal auditing on enhancing the sustainable performance of the company under examination, as well as the effects of this theory's dimensions on the economic, social, and environmental aspects of the company's sustainable performance. The garment factory comprises an accounting department that encompasses a payroll unit, a cost unit for product cost calculation, and an inventory unit. The whole sample comprised 156 accountants from the factory, with 128 forms submitted for voting, accounting for 82% of the overall sample.

5. Theoretical background

5.1 Theory of Constraints

No company in reality operates without a set of restraints that hinder its ability to fully achieve its objectives. A limitation is described as "any factor that obstructs or impedes our ability to acquire more of what we desire." [1] The most apparent limits in the actual world pertain to time, financial resources, and the inherent capabilities of the individual or organization. The Theory of Constraints is characterized as "a methodology designed to enhance profitability by managing, concentrating on, or resolving bottlenecks or resource limitations." [2] It is defined as "a management philosophy focused on the continuous enhancement of system performance to optimize output and attain objectives by addressing internal constraints and managing them in consideration of external limitations, while assessing the effects of these modifications to ensure the optimal use of the system's resources." [3] The efficacy of any system is dictated by a series of limitations that signify bottlenecks or other production factors that restrict overall output. The Theory of restrictions is a systems management concept that posits management efforts should concentrate on restrictions rather than cost reduction, viewing it as a method for enhancing contribution margins. It is frequently condemned for failing to distinguish between fixed and variable cost components. [4] The Theory of Constraints can be delineated by three measures that necessitate This document contains details on the application mechanism:

- Output contribution: This is the value of sales minus the direct material costs.
- Investments (Inventory: representing the valuation of inventory expenses) Raw materials, work-in-process inventory, finished goods inventory, research and development expenses, and costs associated with equipment and facilities.
- Other operating costs: encompassing all running expenses excluding direct materials necessary for output contribution, and including salaries, wages, rent, and depreciation. Procedures for implementing the Theory of Constraints: [5]
- Recognizing the limitation: Every system possesses a constraint or bottleneck. This is the most vulnerable component that constrains the system.
- The system's efficacy is contingent upon the characteristics of its weakest link. These may range from physical bottlenecks, such as machines or equipment with the lowest capacity in the system, to policy, behavioral limitations, and external constraints beyond the system.
- Optimizing the utilization of constraints: There are various methods to enhance the efficacy and efficiency of a constraint.
- Implementing the constraint by imposing it on non-constraints: In this phase, the unconstrained machines (i.e., the predominant majority within the system) are subjected to the constrained machine.
- Removing the limitation: The initial three steps mostly concentrate on altering the application of the limitation without incurring expenses. Expenditures.

5.2 Internal Auditing :

This term signifies that internal auditing serves to support and enhance the entire organization, aligning with its aims and objectives. Internal auditors contribute value to the organization by refining processes, boosting management efficacy in risk mitigation, and ensuring compliance with controls and regulations. [6]

This definition indicates that internal auditing acknowledges the growing significance of guidance and control within the business, and that control mechanisms are implemented to facilitate risk management. The definition also include the trend of internal audit consulting services to address management requirements. [7]

The Accounting and Auditing Standards Board in the Republic of Iraq characterizes internal auditing as an independent evaluative entity within the organizational framework, regarded as a vital internal control instrument instituted by management to ensure the implementation and adequacy of established control mechanisms. This is achieved through a series of controls and procedures aimed at perpetually validating the accuracy of accounting and statistical data, safeguarding the organization's assets and funds, and confirming adherence by employees to the prescribed policies, plans, and administrative procedures. This definition clearly indicates that internal auditing provides two categories of services: [8]

- Preventive services secure the organization's finances and ensure adherence to management plans.
- Provide constructive services to ensure the precision of accounting data essential for developing the organization's overarching policy.

Consequently, internal auditing is a fundamental component of the overall internal control system. An effective internal control system necessitates the presence of an internal audit system. [9]

The International Accounting Standards Committee (ISAC) of the International Federation of Accountants (IFAC) characterizes internal auditing as "the process of assessing activities acknowledged within an organization as a service to it, encompassing the examination, evaluation, and monitoring of the sufficiency and efficacy of internal control and accounting systems." [9]

The Institute of Internal Auditors (IIA) defines it as "an autonomous evaluative function instituted within an organization to scrutinize and assess activities as a service, aimed at aiding individuals within the organization in fulfilling their responsibilities efficiently by offering analyses, evaluations, recommendations, counsel, and pertinent information regarding the examination of activities." The aims of auditing also encompass delivering efficient control at a justifiable expense. [10]

The IIA Working Committee subsequently formulated a definition of internal auditing. It signifies that it is "an autonomous endeavor and an impartial assurance of a consultative nature that seeks to enhance the company's value and optimize its operations." Internal auditing assists the organization in attaining its objectives by employing an impartial methodology to assess and enhance the efficacy of risk management, control, and governance systems. [11]

5.3 Sustainable Performance :

Organizations pursuing sustainability aim to attain objectives that beyond conventional notions and extend beyond mere operational and financial excellence. They are also a crucial component of environmental and social projects. Outstanding organizational performance is now underpinned not only by financial considerations but also by environmental and social dimensions. [11]

The notion of sustainability originated when a collective of innovators, spearheaded by Fessa Tennant and Make Companale in the United Kingdom, Peter Kinder in the United States, Marc De Souse in Canada, and Robert Rosen in Australia, formulated the Reed Resolution. This resolution sought to highlight the connection between organizational performance and sustainable development across its economic, social, and environmental facets to global companies. The advent of sustainable development has posed numerous challenges for organizations, particularly in incorporating sustainable development dimensions into their practices and integrating sustainability into their business strategies to achieve essential benefits [12]. This necessitates fundamental alterations in organizational performance concerning economic, social, and environmental attributes. Sustainable performance is authentic performance that signifies the organization is progressing appropriately, since it is continuous, predictable, and integrated into the plan. The organization's proprietors foresee and manage long-term performance (Cuckuyt, D, 2018). Notwithstanding many studies and research on sustainable performance, a broadly accepted definition remains elusive. Al-Abbad et al. (2023) characterized it as the organization's capacity to maintain exceptional performance for a minimum duration of three years. Another definition characterizes it as the organization's capacity to leverage its existing capabilities and competencies at the individual, group, and organizational levels to fulfill the present and future requirements and aspirations of stakeholders, while attaining the organization's economic, environmental, and social objectives. [13] Another definition posits that it involves fulfilling current and future requirements by addressing economic, environmental, and social dimensions. Aspects of Sustainable Performance: Scholars and researchers categorize the facets of sustainable performance into three dimensions:

- The Economic Dimension: This refers to the organization's capacity to fulfill its objectives by enhancing shareholder and stakeholder satisfaction through attaining acceptable investment returns. Financial objectives serve as the foundation for assessing the organization's economic dimension and also disclose the outcomes of The sustainability of organizational performance and the execution of enhancement strategies are essential. The economic dimension assesses sustainable organizational performance by evaluating competitive indicators within a particular industry and identifying its long-term capabilities. Bai and Sarkis (2014) contend that the economic aspect of sustainable performance is the surplus generated by the business through optimizing outcomes while reducing resource consumption. This performance is characterized by five principal dimensions: reliability, responsiveness to client needs, flexibility, financial performance, and quality. The assessment can be conducted through a series of quantitative and qualitative indicators that address the organization's economic transactions and their impact on the economic conditions of stakeholders[14].
- The Social Dimension: Social performance denotes the organization's effectiveness in attaining its established social objectives, which enhance a significant facet of society or its interactions with other societies (Cuckuyt et al., 2018). Consequently, corporations must to implement concepts and tactics that incorporate their voluntary social and environmental objectives into their operations. Business social performance is categorized into two components: internal and external. Internal performance pertains to owners and staff, whereas external performance concerns customers, the local community, and the government. [15] Social performance is defined as the assessment of an organization's fulfillment of its obligations to its employees. It assesses the efficacy of human resources inside the organization, emphasizing the adherence to human rights, quality benchmarks, and occupational health and safety regulations that govern the workplace. Occupational health and safety management systems are a crucial component of social performance. A secure organization offers comprehensive employment possibilities for all, equitable labor relations, and just remuneration for employees through wages. It emphasizes individual development through the creation of an incentive structure, diversification of rewards, and the provision of training opportunities (Uysal, 2012). In this regard, Hourneaux Jr., F., et al. (2018) assert that social performance is manifested in the alignment of economic outcomes with the achievements of employees and society, facilitated by the utilization of both renewable and non-renewable natural resources to enhance growing social development. [15]
- The Environmental Dimension: The environmental dimension is prominently reflected in the sustainability of successful organizations that have endeavored to establish mechanisms for effectively assessing their environmental performance (Panfilo et al., 2022). This necessitates the implementation of efficient environmental management systems aimed at safeguarding the environment, with an emphasis on productive activities to mitigate their adverse impacts on both the environment and society. The environmental policy of any organization serves as its declaration of intent and the guidelines adhered to concerning the environmental orientation of its operations. [16]

5.4 Integrating Internal Auditing with the Theory of Constraints (TOC)

Internal auditing is an autonomous and impartial role that offers assurance and counsel, aimed at enhancing value and optimizing an organization's operations. It assists the business in attaining its objectives through a methodical and rigorous evaluation and enhancement of governance, risk management, and internal control effectiveness.

Theory of Constraints (TOC), formulated by Eliyahu Goldratt, is a process management methodology that emphasizes identifying the primary constraint hindering an organization from attaining its objectives, particularly profitability, and subsequently managing that constraint to enhance overall throughput. A restriction may be physical (such as machinery or materials) or political (such as procedures or regulations). The management of a constraint is referred to as the Five Focusing Steps: [17]

- Determine the limitation.
- Leverage the constraint to optimize its advantages.
- Subordinate all other factors to the limitation.
- Enhance the limitation (augment its efficacy).
- Preventing Inertia

5.5 Integration of Internal Audit with the Theory of Constraints

The internal audit can be effectively linked with the Theory of Constraints to improve operational efficiency and value addition. Internal auditors can utilize the Theory of Constraints to prioritize their focus on the most significant risks that directly affect the organization's current limitation, rather of adhering to the conventional emphasis on compliance and general risks. [18]

- Assessing and Analyzing the Constraint as a Risk: Auditors might scrutinize management's methodology for identifying the constraint to guarantee its accuracy and objectivity.
- Assessing Exploitation and Controls: The internal auditor evaluates the efficacy of the existing controls to guarantee the full utilization of the constraint and the proper operation of the remaining system to support it (the dual processes of exploitation and control). This guarantees that investments in the constraint produce optimal returns.
- Assessing Inertia Risks: Auditors can determine if the organization has not progressed to the subsequent constraint level after elevating the current constraint level, a significant risk in the Theory of Constraints. The internal auditor can evaluate the appropriateness of employing TOC financial performance criteria (productivity, inventory, operational expenses) in comparison to conventional accounting metrics to ensure that management actions align with the overarching purpose.

This integration elevates internal auditing from a simple retrospective assessment to a consultative ally that enhances productivity and aligns with the organization's strategic objectives.

5.6. Influence of Internal Auditing on Sustainable Performance Evaluation

Sustainable performance denotes an organization's capacity to provide enduring value while taking into account economic, environmental, and social (ESG) factors, collectively referred to as the Triple Bottom Line. This concept transcends business to include its effects on the world and humanity. Internal auditing is essential for evaluating and guaranteeing the integrity of sustainable performance via the following mechanisms: [19]

The internal auditor ensures that the sustainability performance measurements (KPIs) are suitable, dependable, and consistent with the organization's strategic goals and international standards, such as GRI or SASB.

5.6.1. The internal auditor assesses the quality and comprehensiveness of provided non-financial sustainability statistics, including carbon emissions, water usage, occupational safety, and diversity and inclusion metrics. This verification enhances the credibility of sustainability reports issued for the public and investors, mitigating the risk of greenwashing.

5.6.2. Sustainability Risk Assessment: The internal auditor identifies and evaluates risks that jeopardize the organization's capacity to sustain its performance (e.g., climate change risks, social supply chain risks, environmental regulatory compliance risks). Assessing the measures implemented to mitigate these risks enables management to concentrate on essential areas.

5.6.3 Sustainability Governance Assessment: The internal auditor evaluates the adequacy and appropriateness of governance structures (e.g., board committees, policies, procedures) for the integration of sustainability issues into strategic and operational decision-making.

5.7 The Influence of the Theory of Constraints (TOC) on Sustainable Performance Evaluation:

Theory of Constraints (TOC) is conventionally recognized as a methodology for enhancing productivity and financial profitability. Nonetheless, its methodology, which

systematically emphasizes the most crucial element of a system, has significant implications for evaluating and enhancing sustainable performance. The influence of TOC is evident in the application of the Five-Step Focusing Principle to sustainability challenges: [20]

5.8 Identifying the "Sustainability Constraint": The organization seeks the paramount constraint that hinders the attainment of its sustainability objectives, rather than focusing on a physical limitation. This limitation may be: [21]

- Environmental: Efficiency in energy or water usage.
- Social: Elevated employee attrition at a specific location.
- Governance: Absence of transparency within the supply chain.

5.8.1 Exploiting and Enhancing the Constraint: Upon identifying the sustainability constraint (e.g., excessive water consumption), the organization concentrates all its resources and efforts on optimizing water use efficiency (exploitation) and potentially investing in recycling technologies (enhancement).

5.8.2 A Sustainable Productivity Perspective: The Theory of Constraints (TOC) emphasizes throughput, defined as the velocity at which a system produces revenue via sales. Within the framework of sustainability, productivity can be redefined to include the sustainable value generated by the system (e.g., diminishing environmental costs or enhancing brand value). By managing constraints, an organization guarantees that each action it undertakes enhances overall sustainable performance, rather than merely advancing performance in one department to the detriment of the entire system.

5.8.3 Performance Metrics: TOC advocates for the utilization of comprehensive system metrics. In sustainability assessment, this entails shifting from potentially conflicting local metrics to metrics that reflect comprehensive enhancement across the three dimensions. By employing TOC, an organization not only assesses sustainable performance but also establishes a definitive and actionable framework for expediting enhancements in the most vital domains. This guarantees that sustainability efforts are integrated into a holistic strategy aimed at enhancing long-term value.

5.8.4 Influence of Integration: Internal Audit and Theory of Constraints on Sustainable Performance: Integration, in the realm of sustainable performance, denotes the degree to which sustainability considerations (environmental, social, and governance) are thoroughly embedded within the core strategy, operational processes, and organizational culture, rather than being regarded as distinct or ancillary initiatives. This integration is the fundamental catalyst for enduring sustainable value.

5.9 Influence on the three facets of sustainable performance :

5.9.1 Operational and environmental efficiency (economic-ecological integration): Effective integration is attained when environmental factors are incorporated into design and production processes, such as through the adoption of circular economy principles or lean manufacturing techniques. This results in diminished waste, enhanced energy and resource efficiency, decreased operational costs, and concurrently improved environmental outcomes. [23]

5.9.2 Resilient and social supply chain (operational-social integration): Incorporating social standards (including workers' rights, equitable compensation, and safety) into procurement decisions and supplier selection guarantees a sustainable supply chain. This integration mitigates reputational and legal compliance risks while enhancing the organization's operational reliability.

5.9.3 Governance of risk and opportunity (integration of strategic governance): Incorporating sustainability concerns into corporate governance entails that the board and senior management regard these issues as essential value and risk determinants. Resources are distributed according to this vision, and sustainability objectives are integrated into the compensation and performance evaluation framework. The comprehensive impact of integration is a transition from "executing tasks correctly" (compliance) to "executing the appropriate tasks" (value creation). Integrated organizations obtain a competitive edge by means of: [24]

- Innovation: Fostering innovation to create more sustainable products and services.
- Capital Appeal: Engaging investors with an emphasis on sustainability (ESG).
- Business Resilience: Enhanced preparedness for regulatory and environmental alterations.
- Enhanced Brand Equity: Establishing trust with consumers and stakeholders.

6. practical aspect**1.1 methodology Statistical methods**

After reviewing previous studies, the questionnaire was developed, consisting of personal information and three sections. The main questionnaire consists of (15) items distributed across the axes and dimensions to which they belong, as shown in Table (1). The descriptive survey method was used as it is the appropriate method for research. The questionnaire was analyzed using the statistical program SPSS Ver.27.

the total	Number of phrases	Distance	axis
6	6	Internal auditing and the theory of constraints	
3	3	social dimension	Sustainable
	3	Economic dimension	performance
	3	Environmental	
		dimension	
15 paragraphs		Total number of questionnaire items	

Table 1. **Table (1): Questionnaire topics and statements**

%	Number of Category individuals in the sample	variable	Number
87.5	112	From 31-40 years old age group	3
10.9	14	41-50 years old	
1.6	2	More than 50 years	
100	128		the total
4.7	6	diploma	Academic4
51.6	66	Bachelor's	qualification
43.8	56	Master's	
100	128		the total
82.8	106	From 10-20 years old	Years of5 experience
12.5	16	21-30 years old	
4.7	6	More than 30 years	
100	128		the total