

# NEW PERSPECTIVES IN MANAGEMENT CONTROL

*Edited by*

**Tony Lowe and John L. J. Machin**

# Preface

## PURPOSE OF THE BOOK

This book is designed to stimulate discussion and debate about the theory and practice of management control. It has been written to help managers and students to understand more clearly the major influences in the development of the management control systems currently used in organisations, so that they have enough information to take part in the crucial debate on the kinds of management control systems which managers and their organisations will need in the future.

Such a debate is essential, given the changes that are bound to take place in both the managerial task and the information and control systems which will enable that task to be undertaken effectively during the next decade. These changes are likely to be so great that there is a need for informed discussion of the implications they bring with them for either enhancing or reducing the quality of work fulfilment, which is one of life's basic satisfactions. This book provides the material to generate and sustain important aspects of such discussions.

This book was designed to include contributions from authors with a wide variety of background disciplines and kinds of work experience. All of the contributors are concerned to improve our understanding of the theory of management control, and the practical assistance which the application of such theory can give to managers and organisations. The diversity of background disciplines of the authors enables them collectively to offer new perspectives on a vitally important subject.

Academic specialism in a particular subject is as important as managerial specialisation in a particular function. Equally, however, as both managers and theorists become more specialised, so there is an increasing need for those with the multidisciplinary skill to assist the coordination of those specialisms.

For a number of decades, those who have been concerned to design and develop management control systems have seen their role as

facilitating the managerial process – that is, to enable specific and specialised resources within the organisation to be harnessed effectively in line with organisational purpose.

Over the past two decades, however, managerial research has shown that organisational purpose is rarely either clearly or adequately defined. The question has become, 'In an organisation whose purpose includes the stated and unstated, the explicit and the implicit, perhaps in contradiction and conflict in some cases, how can you design and develop a coherent, effective management control system?'

The theoretical challenge is often ignored in practice. Traditional management control systems continue to be used in organisations despite research which shows that their strengths are often undermined by their weaknesses.

This book is intended to help managers, students, and academics to seek better ways of first identifying the weaknesses in present systems, and then finding ways of overcoming those weaknesses through better theories for the better design of management control systems.

## CONTENTS OF THE BOOK

None of the material in this book has been published before and all the chapters were written specifically for it. In developing their contributions for the book, the contributors acted as reviewers for their colleagues' submissions. This process enabled contributors to improve the quality and relevance of their material, and has produced a book with a coherent sense of purpose, something which is often lacking in collections of separately-authored chapters.

The process described above whereby the contents were prepared could have produced a collection of bland material reflecting the contributors' desire to avoid contention amongst themselves. In practice, the review process served to sharpen and clarify the key points of disagreement within the subject, and it also enabled contributors to reference their work to those parts of the book where other contributors either share the same views or disagree.

The book is divided into the following parts:

- Part I    An introduction to the book and an overview of the history of the development of the subject of management control.
- Part II   A study of the purpose of management control systems

- and the theories that underlie their design and development.
- Part III A review of the influences that are brought to bear on, and the attitudes of, the users of management control systems.
- Part IV An assessment of the relevance of three kinds of information which are carried in management control systems.
- Part V A concluding chapter which sets the topic of management control systems in the context of organisational effectiveness.

The early chapters strive to identify the critical differences in the approaches taken by different people to the design and development of management control systems, whilst the final chapter seeks to identify those areas of consensus that are to be found, and thus closes the ring in the study of the subject.

## CONTRIBUTORS TO THE BOOK

The contributors to the book combine managerial and academic experience of management control systems.

All of the contributors are, or have been, members of academic institutions in Europe, mostly as members of multidisciplinary departments whose prime purpose is to teach and research management.

Many of the contributors have first-hand experience of management control systems derived from their employment in industry, commerce or the public sector.

Biographical data about the contributors is presented at the end of the text.

# Acknowledgements

The editors and contributors to this book are, or have been, members of academic institutions in Europe. Initially, as management education developed in Europe, specialists in management control systems tended, like specialists in all other functions, to work in multidisciplinary departments such as business schools. In that position they shared a commitment to management with their colleagues in a particular department, but it was often to colleagues in other academic institutions that they turned for specialist discussion and interaction.

In the 1970s two self-formed groups began to emerge – the Management Control Workshop Group in the United Kingdom and the Management Information and Control System Workshop in Europe, centred on the European Institute for Advanced Studies of Management in Brussels.

The editors and a number of the contributors were founder-members of both. In a multidisciplinary subject, interaction and stimulation from others working in the field is, even more than in other subjects, essential for new ideas to be developed which add both to theory and to practice.

All contributors to this book would, therefore, like to acknowledge their indebtedness to members of the above workshop groups, for the many hours of discussion and interaction which have helped to generate and then incubate the ideas presented in this book.

Every chapter in this book was reviewed by two or more members of the Management Control Workshop Group in the United Kingdom. Whilst all contributors were also reviewers, many reviewers were not contributors. This process of review was exceptionally helpful to the contributors as they revised and improved their original submissions. Thanks are particularly due to Simon Archer, Syd Howell, Howard Lyons and Tony Puxty.

The process of critical collaboration described above is being continued in respect of a further book, *Critical Perspectives in Management Control*, which will be published shortly.

The editors and contributors wish to acknowledge the support which the Management Control Workshop Group has received over the years from the SSRC for funding meeting costs. The present book represents a by-product from the regular MCWG workshops held to discuss individual and group research. The contributors hope that this book will help to demonstrate the value of such 'pump-priming' funds as a means of supporting the generation of new ideas and initiatives.

In collaborative work, secretaries become arguably the most important people involved. The editors wish to thank Glynnis Benison for her help with all the editorial work, and contributors would like to acknowledge their indebtedness to those who prepared their material for submission, namely: Glynnis Benison, Marie Boam, Pat Brookes, Lyn Caudwell, Margaret Creighton, Karen Hanson, Rebecca Jackson, Pat Lawson, Joyce Lea, Jean Waring and Val Wilson.

The editors would like to thank the contributing authors for their dedication to the task of improving their chapters, their patience with the editors and their willingness to help with editorial tasks.

TONY LOWE  
JOHN L. J. MACHIN

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# Part I

## 1. Introduction

*John L. J. Machin and Tony Lowe*

## 2. Management Control Systems: Whence and Whither?

*John L. J. Machin*



# 1 Introduction

John L. J. Machin  
Tony Lowe

## THE NEED FOR 'NEW' PERSPECTIVES IN MANAGEMENT CONTROL

Mythology and tradition are powerful determinants of both behaviour and thinking patterns. It is important, from time to time, to assess whether the myths and traditions of a particular subject are helping or hindering the pursuit of knowledge in that subject.

Now is an appropriate time to review the myths and traditions of management control systems design and practice, because the subject is rapidly approaching a theoretical and practical watershed. The key elements in the study of such systems are all facing profound changes simultaneously.

The purpose of such systems is in dispute. Societal expectations of employing organisations, and the managerial tasks within them, are changing rapidly. Whilst some causes for that change – increased and better education – can be readily identified, the ultimate effects of the ebb and flow of the debate between individual freedom and organisation man, the debate concerning the environmental impact of the explosive increase in the number of the human species, the environmental impact of the things made by human beings (organisations, nuclear waste, chemical pollutants, etc.) are much harder to forecast. All these debates, however, raise profound questions about the purpose of management control systems.

Within the subject itself there is an increasing recognition of the need to reappraise the demands placed on management control systems' designers. Traditionally, emphasis has been placed upon the demand for efficient management control systems; that is, systems which were simply designed to ensure the efficiency of use of resources without questioning the goals or objectives of the organisation.

Increasingly there is a demand for effective management control systems, where the purposes for which the resources will be used become the primary concern and the efficiency in use important but secondary.

Thus a decision about 'the most efficient system to use' should be dependent on the purpose for which the system will be used.

Thus, we would contend that greater emphasis on the definition of *effective* management control systems calls for a greater examination of *their purpose* at the three most important resolution levels of human interaction:

1. as persons, individually;
2. as organisations, collectively;
3. as human society, holistically.

This in turn requires us to review and, if necessary, challenge present enterprise management control practice in terms of its mythology and tradition. Mythology and tradition are powerful values at all social levels: individual and collective. Moreover, they are so pervasively programmed into us in our early life that they are effectively *non-rational* parts of our individual being and of our whole human civilisation. As a result, we quite naturally tend to see bodies of practice such as those constituting enterprise management control systems, as strictly rational, that is, as being formed entirely by the use of reason. We tend to be unaware that culture values determine our particular (subjective) definition of rationality and of rational practices within our society. Our popular common ideas on what is appropriate behaviour and attitude are so much part of our being that it affects the *Weltanschauung* (whole world outlook) of all persons within an organisation. More specifically, they are likely to affect the way in which both practitioners and theorists perceive control procedures and actions. Consequently, the barriers to change in thinking about control procedures and actions, and subsequently in actually trying to change them, are formidable because they are part of the whole culture and ideology of a society. Just this concern led Herbert Simon (1976), for instance, to require that he always qualified the word 'rationality' when he used it as 'objective', 'subjective' or 'conscious'.

It is important to stress at this point that we are not advocating the abandonment of the idea of rationality in a study of management control: we merely wish to emphasise that we must always bear in mind the limitations which must apply, of necessity, to any (human)

conception of rationality. Moreover, we consider it especially important to emphasise the overwhelming prevalence of cultural ideology (in terms of mythology and tradition) in a book about management control systems because management control is precisely one of those particular kinds of human activity in which carefully considered, deliberate, rational action is considered to be both necessary and desirable, not least because of its importance in avoiding and resolving human conflict, potentially highly damaging to our whole society. Unconscious fixity of viewpoint and a resultant lack of sufficient conceptual flexibility is, therefore, likely to be one of the most damaging tendencies we are likely to be prone to, given our concern for, and close involvement in, the management of work groups. Indeed, members of the Management Control Workshop Group (Lowe and Puxty, 1979) have argued elsewhere in somewhat more detail concerning such myopic tendencies in orthodox approaches to management control practice.

Thus we feel that in the field of *effective* management control systems (based on the broad assumption that organisational and enterprise purpose must ultimately be to enhance the quality of life on the planet) it is clear that we still have a long way to go before we can claim to understand how to achieve effectiveness.

Social concerns such as unemployment (or enforced leisure), coupled with changing concepts of organisational purpose and form, raise profound questions about the *purpose* of management control systems, which those concerned to develop the theory in the subject – and subsequently to design and develop new systems – cannot avoid.

At the same time as the purpose of management control systems has become a central item for study, developments in information technology have removed most of the traditional constraints on information handling. Sheer volume of information and its useful organisation are no longer problems from a storage point of view. The challenge has become to find ways of accessing exactly the information that is needed for a given decision from the volume that is available; providing access to relevant information presents management control system specialists with both technical and psychological conundrums. For such purposes a (highly complex) model of the decision-maker's and enterprise's needs for information is required, in principle, in order to overcome the technical challenge to access exactly the information that is needed from what can now be virtually an infinite volume of accessible data.

The psychological challenge to management control systems'

designers is whether to lead or to follow societal views concerning access to information. For example, is it the duty of management control systems' designers to design systems where access to organisational information is available to any member of the organisation? If so, the most critical (moral) problem is that of defining organisational membership.

Alternatively, the management control systems' designer could be constrained by the user's specification. The ultimate end of such a system might be to give total power to one individual. Information always confers power, and the fact that we can harness almost unlimited quantities of information if anything reinforces that fact. If the user is the sole determinant of a system's design, then the ultimate user could presumably preclude any others from access to information of importance to them.

Somewhere along that spectrum from universal free access to individual sole access must lie the most appropriate position for management control systems in different kinds of organisations.

The theoretical challenge of designing systems which could give that flexibility is with us now. It is essential that decisions about the appropriate place on the spectrum of access to information should be made after public debate by those who will be affected by the systems, as well as by those who will use them. Despite the complexities of such a process it is therefore evident that we recognise the relevance of legislation in respect of management information and control systems.

The managerial environment itself is also changing rapidly. There has been a progressive shift in the advanced economies of the world from 'goods' production to services creation. Even in 'goods' production industry the importance of design and development services is now much greater than before.

Expressed in traditional accountancy terms, i.e., the terms of the tripartite split of cost between 'engineered', 'managed' and 'committed', the last two decades in advanced economies have seen a major switch from 'engineered' to 'managed'. The percentage of total cost incurred that is 'managed' has rocketed.

The major attribute of managed cost has always been the difficulty of forecasting or measuring the outcome for a given amount of cost incurred. As the volume of gross national product which is devoted to service industries rises, so does the challenge of developing more effective systems for handling uncertain, and in some cases unmeasurable, output in discrete, homogeneous terms. Traditional accounting-based systems have little relevance for measuring the output of

managed cost, and can, at best, only tell us whether the input cost we planned to incur has actually been incurred.

### **Summary**

The position the management control system's designer faces in 1983 and after is a healthy one for specialists in the field. There is an explosive growth in the kinds of organisations that need new and better management control systems. There is available at the present moment a much greater, and better documented, understanding of the theories and practice of designing and developing management control systems than was available twenty years ago. At the same time this healthy, essential development raises profound moral and legal problems at all levels: personal, organisational, societal and humankind.

Teaching, researching and working in the field of management control systems now are specialists drawn from a wide range of disciplines. Many of them bring to the subject a very much greater understanding of the workings of society, and the motivation of individuals and groups, than was available at the beginning of the 1960s.

In such circumstances, the work of such specialists becomes not a question of upgrading 'manual' systems, but of opening up new perspectives on the most appropriate theory for the next generation of management control systems and then designing and developing them in practice.

One of the strongest myths in the field of management control systems is that 'management control' is synonymous with 'management accounting'. Nothing could be more misleading, but the mythology has been supported by the tradition, particularly in the United States, that it was 'accountants' who tended to leave their early discipline to move into the field. The contributors to this book are all acknowledged experts in the field, but their range of early qualifications (see Notes on the Contributors) shows that the American tradition is now a European myth.

### **Management control systems – a multidisciplinary subject**

The management control system specialist must seek to understand what it is that managers do when they are planning and controlling the use of resources within an organisation, and then seek to design and develop more effective systems for enabling that process to be carried out.

Management is known to be a complex activity. Sometimes it is carried out by people who are actually called managers, though most of the time all individuals within an organisation carry out some managerial activities.

A number of approaches have been taken to developing theories and models which enable us to approach the complexity of the managerial task in a sufficiently structured manner to be able to understand it a little more clearly and, therefore, to be able to design ways of helping people to deal with the complexity more effectively.

That is the paramount purpose of management control system specialists. They are the individuals who produce the systems which enable both specialists and integrators to combine to achieve organisational effectiveness.

At the theoretical level such a task is presently doomed to failure. At the present moment there is no universally accepted definition of the phrase 'organisational effectiveness', let alone the phrase 'managerial effectiveness'. It necessarily follows, therefore, that no effective management control system can be demonstrated to exist, given the present state of our knowledge and understanding.

At the practical level, however, organisations exist and the people within them are clearly capable of generating a range of outputs from the inputs that are supplied. Equally clearly, the people involved in those processes use management control systems in the course of their work and are able to describe the ways in which those systems help or hinder them.

Thus, we have the dichotomy that whilst the present theory does not enable us adequately to understand what is going on, practical observation of what is going on shows that there is considerable dissatisfaction both with the results achieved and with the systems used to achieve them.

Part of the problem undoubtedly lies in the fact that many of the key terms in the study of employing organisations are insufficiently defined. The very word 'system' is a prime case in point.

Many disciplines have been brought to bear on the study of organisations and the individuals who work within them. Some of those disciplines are functional – marketing, production, finance – some of the disciplines are concerned with the process within the organisation, irrespective of function, such as psychology, sociology, general systems theory and cybernetics.

There has been much discussion of the most appropriate discipline with which to tackle the practical problems associated with designing



and developing management control systems and in Chapter 2 Machin seeks to identify the key strands that have gradually become interwoven into the body of knowledge currently subsumed under the words 'management control systems', when used to denote a field of academic study and research.

### Why study management control?

The contributors to this book represent a wide spread of interest and purpose in studying management control. Some seek to produce a progressively clearer *definition* of the process called 'management control'. The thrust of their research is based on the assumption that until you can define what you are studying sufficiently clearly, you are likely to be ill-placed to comment on what constitutes a more, rather than a less, effective implementation of that particular process. Such research is aimed, *inter alia*, at producing ways of evaluating in a progressively more objective manner the effectiveness with which different managers are controlling what they do.

Others are seeking to identify the *purposes* of those undertaking the management control process within organisations. Some approach research on this topic from a normative stance based on their assumption of what the goals of organisations *should* be. They carry beliefs about the purpose of society, and thus of organisations within society, and seek to develop systems that will enable those beliefs to be supported. Other researchers on the purpose of the management control process in organisations seek only to ascertain, rather superficially, in a non-problematic manner, what the goals of that process actually *are in practice*. Their work has already shown that it is exceptionally difficult to develop an understanding which is in any sense meaningful about what the goals of any given organisation are, since there is significant debate about whether organisations can have goals. Many would argue that an organisation, being a non-sentient entity, cannot have goals. Thus in the same way that a table does not have goals (that is, the purpose for which a table is used is specified in the manifest behaviour of the person owning or using the table) they would argue that an organisation does not have goals.

A third group of researchers is concerned to try to develop ways of assessing the effectiveness and efficiency of the systems which managers currently use to enable them to carry out the management control process. Managers themselves are well able to express their views on the extent to which current systems help them in their