Management Control and Organizational Behaviour

PHIL JOHNSON AND JOHN GILL

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P·C·P
Paul Chapman
Publishing Ltd

Paul Chapman Publishing Ltd
144 Liverpool Road
London
N1 1LA

British Library Cataloguing in Publication Data

Johnson, Phil
Management Control and Organizational
Behaviour
I. Title II. Gill, John
658.3

ISBN 1 85396 163 9

Typeset by Inforum, Rowlands Castle, Hants
Printed and bound by Athenæum Press Ltd., Newcastle-upon-Tyne

A B C D E F G H 9 8 7 6 5 4 3

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Preface

Alistair Mant (1976) suggests that the term 'management' should be used to describe three related phenomena: an activity, an occupational group and the values or ideology of that group. As this book is primarily concerned with 'management control', it deals with a particular aspect of management that, according to Mant, comes from the word's mixed French and Italian roots, which give it an almost hermaphrodite character in that it means both to cope and to control. Mant argues that the term 'manage' derives from the Italian word, *maneggiare*, which means handling things (especially horses). This is a masculine concept that implies taking charge or directing, especially in the context of war. Mant suggests that it also comes from the French word, *ménager*, which means using something carefully and a word that has more gentle, almost feminine connotations.

Although there are several empirically based models of managerial work (e.g. Mintzberg, 1973; Stewart, 1967, 1976; Sayles, 1979), there is little consensus about what managers' everyday activities actually are. This uncertainty is made worse because management is not an undifferentiated, homogeneous occupational group. This is not to imply, however, that there is no consensus about the purposes of these everyday activities. As Mant says, writers at different times and for different audiences seem to agree that management's main purpose is the exercise of control over human and inanimate resources in various organizational contexts (e.g. Burnham, 1941; Humble, 1970; Poulantzas, 1972; Braverman, 1974; Wright *et al.*, 1982; Storey, 1983; Goldsmith and Clutterbuck, 1984). So while it is important *not* to treat management as a monolithic whole, and while management's work requires a variety of skills (Stewart and Stewart, 1981), there appears to be a unity of purpose in managerial hierarchies and in different organizational contexts: that is, management's role is, to a large extent, that of controlling.

Storey (1983, p. 96) argues that, despite contrasting approaches, a manager's 'quintessential role', especially when dealing with labour, is that of control: 'the incessant though tactical rather than "strategic" day-to-day campaign to render labour tractable'. Control means making potential labour power real, and it also entails controlling and manipulating the non-human factors that make this power possible. If managerial work is concerned with controlling human resources, then all managers will have to cope with the vagaries of organizational behaviour and with their subordinates. Therefore, all managers must be able to understand and predict how humans behave in organizations.

This book does not intend to provide managers with a series of recipes to aid them in their endeavours to control; rather, by focusing on 'management control' it introduces the reader to organizational behaviour and makes accessible some recent developments in the literature. It also tries to help the reader develop a more critical understanding of what management control involves, of the ways control might be attempted and of the complexities of behaviour that can affect any outcomes. We try to avoid a functionalist approach that would follow Parsons' (1960, p. 23) view of managers as providing a purely integrative function in organizations: 'a generalized capacity to secure the performance of binding obligations by units in a system of collective organization when the obligations are legitimized with reference to their bearing on collective goals.' In such an approach, management's legitimacy is taken for granted, and management control becomes a narrow concept, being simply the most efficient technical means of integrating an organization's human resources with management's goals. These goals are considered to be 'collective' where, often, consensus does not exist. We thus avoid an approach that regards management control as being unproblematic and based on management's assumed needs in the exercise of its legitimate custodial functions. Many influential management-control texts that adopt such a perspective rarely mention such issues as power, resistance and conflict, which is not particularly helpful to managers who are trying to understand these organizational problems.

The study of management control in modern times was originally very narrow, being regarded primarily as something technical, synonymous with financial control, and thus within the realm of management accounting, which was, in turn, usually studied in isolation from behavioural matters. At Harvard Business School, for instance, Anthony and his colleagues (1965, 1976, 1984) considered management control to be an aspect of management accountancy – an approach that became highly influential. This approach viewed management control as a routine activity concerned with monitoring activities and ensuring that resources were used effectively to accomplish the organization's strategic objectives. Management control was seen as something that mediates between what Anthony and his colleagues call 'strategic planning' (senior managers and specialists setting objectives for an organization) and 'operational control' (the apparent concern of line managers and supervisors and relating to carrying out specific tasks on a day-to-day basis). Defining management control in such a way allowed the focus to be fixed almost exclusively on accountancy-based organizational controls aimed primarily at controlling the managers' behaviour itself (Puxty, 1989). As Puxty goes on to argue, it is wrong to assume that such accounting-derived controls are the only or main means of management control: Anthony and colleagues' model is too simple, and it assumes away too many problems in two important ways. First, strategic planning cannot be divorced from control since effective control must involve developing and changing plans and objectives. Second, operational control cannot be divorced from management control because, ultimately, control over an organization's activities comes down to controlling the organizational behaviour of individual members, who have been assigned specific tasks and responsibilities through vertical and horizontal differentiations. By ignoring the important links noted by Puxty, Anthony and his colleagues failed to describe control in organizations adequately, and what resulted was an emphasis on the technical elegance of accounting controls at the expense of understanding other kinds of control in organizations. This had a strong ideological bias in favour of those in powerful positions that seek to find more effective ways of controlling others; all this was at the expense of considering the behavioural processes and contexts that impinge on control processes, and it was compounded by a much too narrow concern with intra-managerial and shareholder–management relations. This view of management control ignores the broader concerns of this book – the exercise of control by any organizational superordinate over any other subordinate, managerial or otherwise.

One aim of this book is to introduce the reader to these broader behavioural concerns and, in so doing, the authors recognize that they are pursuing an approach that will bring in ideas from a very disparate body of work – work that has, in some instances, tried to broaden management control's scope to include behavioural issues and that, in other instances, has adopted a critical stance to these concerns.

A broader concept of management control can be traced back to Argyris (1954), who applied organizational psychology to his study of the effects of budgetary controls on managers' and supervisors' behaviour. At the same time, such sociologists as Gouldner (1954), Selznick (1953) and Merton (1957) were researching both the anticipated and unanticipated consequences of control systems on members' organizational behaviour. This work suggested that the unanticipated effects of such formal administrative controls were not only a result of subordinate resistance but also a result of failure to be accepted informally at a collective or individual level – something that was necessary if they were to influence members' everyday organizational behaviour (Hopwood, 1974).

An influential approach that is critical of such a managerialist view is illustrated by the work of Clegg and Dunkerley (1980a), Lowe and Machin (1984) and Chua, Lowe and Puxty (1989). This view, which varies in its approach, argues that, as control in organizations involves the control of some people by others, its investigation cannot be restricted to a consideration bound within the technical perspectives of conventional accountancy or physical engineering. Its investigation, therefore, must be extended to include the operation's social and behavioural processes – processes through which such controls are constructed and reproduced. Moreover, this analysis must include all manner of control systems and processes that are often excluded by an overly technical perspective: the recruitment and selection of members, the deliberate manipulation of members' cultures and the impact of socialization processes.

However, what makes a critical perspective most distinctive is that, instead of assuming that managers exercise a legitimate prerogative in the collective interest of the whole organization, organizations are seen as being composed of a multiplicity of groups whose interests vary and often conflict. This approach avoids what Roberts (1989) has called an 'asymmetrical approach to power and control'. This, Roberts argues, is not only manipulative but is also likely to be counterproductive for managers who will never be able to achieve complete control over subordinates.

This book, therefore, deals with a fundamental aspect of organizations – namely, the processes by which an organization's members determine what things get done and how they are done. These processes have attracted the attention of a number of specialists, such as accountants, engineers, sociologists, psychologists and economists, each of whom tends to examine the processes from their own specialist point of view. Obviously, the authors of this book have their own discipline-based perspective, which has influenced the content of the book; however, we have tried to adopt a broad approach and have drawn on a wide range of sources in an attempt to make clearer what has often proved to be a very confusing field. Moreover, as has already been said, the idea of control developed in this book tries to provide a unifying framework for understanding a variety of organizational concerns: organizational design, leadership, culture, communication, motivation, power, co-operation and conflict. Control is thus seen as a general, underlying principle that allows an integrated consideration of a variety of topics, which are so often treated as if they were discrete single phenomena.

Chapter 1 considers the context of management control – that is, how vertical and horizontal differentiation raises the 'problem' of control. In doing so, the chapter looks at a series of interacting elements, which include organizational structure; the various cultures to which members refer and defer in making sense of their 'worlds' and in constructing meaningful action; and the social, economic and political environments in which organizations exist. Chapter 2 considers the variety of control influences on members' organization behaviour. Taking Hopwood's (1974) model as a starting point, it reviews how administrative controls are constructed socially, and how their impact on members' organization behaviour is socially mediated; the chapter also raises questions concerned with different kinds of self-control. Chapter 3 discusses motivation theory: human needs, motives and goals, and how these influence the direction and maintenance of intentional individual behaviour. This chapter then goes on to review the various assumptions that have been made about the moral and ethical significance of work.

Chapter 4 tries to avoid the universal, psychological approach to motivation discussed in Chapter 3 by suggesting a model that takes into account the cultural diversity and complexity deriving from members' subjectivity. This model is then used to analyse the components, design and operation of output-based administrative control systems.

Chapter 5 explores the vexed issue of organizational culture further. It examines managerial attempts to control members' organization behaviour by deliberately manipulating the organization's culture to influence the value premises of such behaviour. In so doing, the chapter examines whether or not it is possible for management to change or develop a homogenized organizational culture that accords with management's aims and objectives – as current thinking suggests.

Chapter 6 to some extent continues the exploration of areas discussed in Chapter 5 in its consideration of self-control, self-management and leadership. Chapter 7 investigates power in organizations with specific reference to management control. An important aspect of this is a consideration of what have been termed the 'hidden faces' of power, which, in turn, support the managerial prerogative. Finally, Chapter 8 tries to outline the nature of current and future trends in the management control of human resources in work organizations. In this, it reviews aspects of the recent debates about organizational flexibility, human resource management and post-modern organizational forms.

The ideas presented in this book have been discussed with many people over many years – sometimes only inferentially, sometimes controversially, but always in a manner that has been stimulating. We would like to thank our colleagues at Sheffield Hallam University (formerly Sheffield City Polytechnic) and elsewhere, as well as our students, past and present, who have consciously or inadvertently contributed to our understanding of management control and organization behaviour. We would particularly like to thank Peter Ashworth, Tony Berry, Alan Coad, Steve Cooke, John Cullen, Steve Farrar, June Fletcher, David Golding, Keith Harrison, Chris Hutchinson, Tom Lupton, John McAuley, Nick Rahtz, John Shipton, Ian Tanner, Sue Whittle, Hugh Wilmott and Tony Wood. We would also like to thank Peter Cooke, Dave Hawley and Ken Smith who were kind enough to read earlier drafts of the book and provide incisive feedback.

We also gratefully acknowledge the help of Janet Green and Martin Cooper, who rescued us from the intricacies of Word Perfect 5.1 on so many fraught occasions. Thanks, too, to all the librarians at Totley for their help on so many occasions. We would also like to thank Marianne Lagrange and her colleagues at Paul Chapman Publishing for their support and encouragement. Last, but by no means least, thanks to Brenda and Carole's forbearance for so many months.

Contents

1

The Organizational Context of Control

Introduction

In this chapter we set out what we consider to be the important aspects of the context in which control issues arise in organizations. In doing so, we argue that this context is made up of a series of interrelated and interacting variables, which include

- the organization's structure;
- the various cultures to which members of an organization refer and defer in making sense of their 'worlds' and in constructing meaningful action; and
- the social, economic and political environments in which the organization exists.

These variables have ambiguous and complex relationships with the control processes and mechanisms in organizations. For instance, although an organization's structure and cultures are crucial aspects of that context, they also directly influence members' behaviour and are hence often seen as important forms of control in their own right. While we will try to clarify these variables to some degree, we will also make reference to the implications of environmental issues. However, we do not deal with the environment specifically as a contextual variable – rather, 'its' implications are considered, where appropriate, in subsequent chapters, where we elaborate on the all-pervasive influence of culture on members' organizational behaviour, as well as exploring the relationship between organization structure and control.

In this chapter we provide an initial overview of the relationship between control in organizations and certain contextual variables, a relationship that has been the subject of much theoretical and empirical research. We build on this starting point in later chapters.

Understanding the Organizational Context of Control

In attempting to understand the organizational context of control, it is useful to begin by trying to imagine the situation that confronts members of 'small and simple' organizations as they begin to expand in terms of the tasks done as well as in the number of people involved in doing those tasks (see also Gill, 1985). A person known to us has recently started a small business, which developed out of his hobby of growing a wide variety of heathers in his own garden. Through trial and error, he has found that it is relatively easy to propagate most varieties of heather, provided suitable cuttings are taken at the correct times of year and so long as they are rooted in the appropriate medium and are provided with a sufficient amount of humidity and warmth. At first, these activities extended merely to increasing his own stock of heathers for his garden and to giving away young plants to friends and relatives. However he discovered, by chance, that there was a thriving market for his heathers. This discovery coincided with and, to an extent, encouraged his decision to take early retirement.

A small business thus developed out of a gardening pastime. This business involved the purchase of two new greenhouses, which he erected at the bottom of his garden next to the one he was already using, and his investment in further varieties of heather to increase his stocks. At the time of writing his business is doing very well financially, but it remains a 'one-man-band', since all the activities essential to his business are undertaken by him, the owner-manager. He decides on, and plans, his activities by referring to the seasonal fluctuations in the gardening calendar, which influence the best time to take cuttings, as well as customer demand. He selects and buys all the necessary materials and new stocks of heather while maintaining the maturer stock from which he regularly takes thousands of cuttings for propagation. These he cares for until they are ready for sale through a variety of outlets, one of which recently has become mail order. He maintains all his own equipment and even keeps his own accounts and so on.

Thus, under his direct involvement in every aspect of propagating and selling heathers, this man's original hobby has developed into an apparently thriving small business. He is now tempted to expand and diversify by including in his range such plants as pelargoniums, fuchsia and lobelia. By propagating and growing new plants he hopes to enter the highly lucrative hanging-basket market. However, such an expansion and diversification will create problems. He knows, for instance, that expansion will require the purchase of land and the erection of at least one large greenhouse connected to electricity and water supplies. However, his main worry is that it will not be possible for him physically to do all the additional work created by these developments. In sum, he is faced with the prospect of either forgoing the proposed expansion and diversification or employing people to work for him. Although he wants to develop his business he is fearful about employing people. As he says, 'I know what needs to be done, how, when and where . . . But can I trust people to do things as I want them to be done?'

It is important to note that, up to this point in his business's life, our acquaintance has relied completely on what has been called 'entrepreneurial control' (Pollard, 1965; Hopper and Berry, 1984). This is where the entrepreneur retains the authority to take (and copes personally with) most of the major decisions in an organization and, thereby, maintains simple and direct control over the activities of that organization (see Edwards, 1979).

In many early factories, such attempts at maintaining entrepreneurial control resulted in the employer having a very wide range of responsibilities both inside and outside the factory. In some cases, the employer would patrol the shopfloor, 'belabouring his men with his own walking stick' (Pollard, 1965, p. 232). In this way they 'exercised power personally, intervening in the labor process often to exhort workers . . . and generally acting as despots, benevolent or otherwise' (Edwards, 1979, pp. 18–19).

In the case of our horticulturalist, perhaps the limited growth he plans would not require a significant move away from a control strategy based on the centralized and personal supervision of the entrepreneur. However, this kind of control – through centralized decision-making – is only effective in small and simple organizations because, as organizations become larger and more complex, such a strategy becomes increasingly difficult as the demands on the entrepreneur's capacity to make decisions increase (Ouchi, 1977; 1978). To expand this further, Offe's historical analysis (1976), which uses the concept of 'task-continuity', is useful. Offe argues that, in the small, simple companies typical of the early stages of the Industrial Revolution, organizations tended to resemble the state of affairs that predated industrialization – task-continuity, where the organization's status hierarchy and knowledge hierarchy coincide. In task-continuity, the entrepreneur has detailed knowledge of the production processes in use, and could indeed control them by personal supervision and by the application of personal knowledge of what the tasks involve. This type of organization was characterized by the 'unity of simple, direct and personal surveillance, ownership and control, premised on an intimate mastery of all the tasks at hand' (Clegg, 1990, p. 88). However, with the increasing size and complexity of organizations brought about by the concentration of capital into larger units, and the bringing together of different types of production process, the unity of status and knowledge hierarchies became disrupted (Offe, 1976). In these conditions of 'task-discontinuity' it was 'increasingly unlikely that any one person would have sufficient knowledge of all their processes to be able to control them in an adequate manner' (Clegg, 1990, p. 10).

Delegation

One result of increasing organizational size and complexity is that it becomes necessary for the entrepreneur to delegate decision-making to subordinates in some way. This means that certain decisions are 'passed downwards and outwards' to different subordinates (Child, 1984, p. 146). By following Carlisle (1974), Child (1984, pp. 146–53) proceeds to consider the advantages of centralized and delegated approaches to decision-making in organizations. The advantages associated with centralization may be as follows. Concentrating decision-making among a relatively small number of individuals, who should have a strategic grasp of what needs to be done, makes it easier to co-ordinate organizational activities. Such centralization avoids the proliferation of managerial hierarchies and activities. It economizes on managerial overheads and puts power into relatively few hands, thereby allowing the opportunity for strong leadership.

The advantages of delegation are that, by relieving the burden on senior management or the entrepreneur, delegation gives subordinates greater discretion and immediate control over their work (Child, 1984). This can have important motivational implications, as it fosters job satisfaction and commitment. Delegation also allows the person who is directly involved with a problem to handle that problem in the most appropriate ways. This permits greater flexibility in an organization, since it allows the person who is 'on the spot' and who should have 'local knowledge' to deal with things immediately without seeking the approval of relatively remote superiors – thereby improving their control over domains of responsibility.

Which is most suitable, centralization or decentralization? A series of circumstances will determine which option is the most appropriate (*ibid.*). The most important are summarized as follows.

Size

As we saw earlier, when an organization grows, greater and greater demands are placed on the entrepreneur's decision-making capacity. It becomes impossible for the entrepreneur to continue to be involved in all aspects of the organization's activities. Although many may resist the need to delegate, organizational growth clearly demands delegation in order to cope with the danger of work overload.

Geographical dispersion

As an organization grows its operations may become increasingly scattered geographically. This puts further pressure on the entrepreneur's ability to cope, since it is impossible 'to be everywhere at once'. The centralized approach of entrepreneurial control means that problems and decisions have to be relayed back to the centre for solving and consideration. This can create considerable delays, as well as overwhelming the capacities of the entrepreneur or the senior management. People at the centre may not have the local knowledge necessary for dealing with the issues passed on to them. The wrong people may be making decisions, about things they do not fully understand and much too late in the day. Hence, the greater the geographical dispersion of an organization's activities, the greater the need for delegation (*ibid.*).

Technological complexity

The difficulties created by growth and geographical dispersion, which put so much pressure on the entrepreneur's decision-making capacities, are made worse by increasing technological complexity. In general, as the organization's technological complexity increases, so does the demand for people with different kinds of specialist knowledge and skill. It is highly unlikely that entrepreneurs and senior management possess such a wide variety of attributes and, therefore, it is inappropriate for them to attempt to maintain control in the personal and direct ways that are possible in small and technologically simple organizations. Their lack of knowledge should make them delegate decisions to those members who actually possess the appropriate skills and abilities.

Environmental stability

The pressures on the entrepreneur's decision-making capacity noted above are increased when an organization is operating in a highly unstable environment. Where the environment is very stable it is possible to predict what the conditions are likely to be at some future date, and thus to plan accordingly. This may allow decision-making to be centralized in the 'hands' of the entrepreneur or senior management team. However, if an environment is, or becomes, unstable (e.g. due to volatility of customer tastes and demands), it is impossible to predict with any certainty what things will be like in the future. This means that the organization must be capable of flexibility in the form of rapid change and adaptation to new and unpredictable circumstances. In large and complex organizations, the ability to cope with such changes is facilitated by delegation, since delegation allows the people with access to the relevant information to make the appropriate adaptations without constantly having to refer up an extensive hierarchy for permission or ratification. By contrast, in small, simple organizations, such instability may be best handled by a concentration of decision-making at the 'top', which allows for adaptation to external change through strong leadership and incisive decision-making (Child, 1984).

In the example with which we began this chapter, it is evident that our gardener's decision to expand and diversify his business's activities would, to some extent, require him to delegate to his employees particular tasks and responsibilities that had previously been his alone. Obviously, the scale on which this happens depends largely on the organization's eventual size, complexity and geographical dispersion, as well as the nature of the environment in which it operates. For instance, he may need to employ people to maintain his current mature heather stocks, to take and propagate cuttings, to look after and develop his new ranges of plants, to maintain equipment and buildings, to sell his products and to keep accounting records. If his business continues to grow, employees may have to begin to specialize in particular tasks (e.g. marketing, production, maintenance and clerical work), which may be located on different sites. These processes, by which the various tasks and decisions that make up the business are delegated to various members of the organization, can be said to result in horizontal differentiation and vertical differentiation.

Horizontal Differentiation

As organizations become larger, technologically complex and more dispersed geographically, they rely increasingly on horizontal differentiation – that is, an organization becomes divided into different segments, each with tasks that differ in various ways from the tasks of other segments. The result is that different people within each segment only deal with a very small part of the whole organization's activities. From the entrepreneur's point of view, such specialization through a division of labour can confer many benefits – particularly, it is assumed, in improving efficiency and productivity by developing competency through focus and repetition. Indeed, some writers consider that such a division of labour resulting in specialization is a characteristic