ORGANIZATION

CONTEMPORARY PRINCIPLES AND PRACTICE

2ND EDITION

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WILEY

Chapter 6
Control

What this chapter covers

Control is an elusive concept, even though it refers to a central process in management. The chapter therefore begins by clarifying the nature of control. It identifies a number of foundations upon which control within an organization can be built. The chapter goes on to make several key distinctions relevant to the exercise of control. One is the difference between strategic and operational levels of control. A second concerns the three principal features of control on which a policy decision has to be made: its extent, focus, and the mechanisms through which it is to be exercised. Yet another distinction relevant to mechanisms is between control based on authority and control achieved through the management of relationships and/or of identity. These distinctions help us to understand the options for control. These options are classified into six basic strategies of control and discussed in detail.

Certain of these control strategies are associated with conventional organizational forms, while others are more in keeping with newer approaches. The choice between them, and the configuration of control strategies adopted, reflects the circumstances of a particular organization, and the contingencies it faces. The chapter closes by considering these contingencies.

An Elusive Concept

Control is an essential and central process of management. Chapter 2 indicated that early writers on organization, especially from the "classical" school, gave considerable thought to control and emphasized formal control mechanisms such as rules and the definition of responsibilities. Then for a long time, the subject was neglected by most writers on organization and is still not given the attention it deserves.[1] There are several possible reasons for this period of neglect. Some may take it for granted that managing is about control and that for this reason there is no need to treat the subject separately. However, it is hardly conducive to a discussion of control to treat it implicitly in this way. Another possibility is that control has a sinister ring to it, associated in people's minds with associations of power and manipulation. As a result, there may be some reluctance among many business school writers to discuss control, in order to avoid embarrassment for their sponsors in positions of corporate power. The claim, sometimes made, that control is a purely technical process concerned with accounting and operational feedback, also amounts to a de-sensitizing of the subject.

The standard English definition of control is "to order, limit, instruct, or rule someone's behavior."[2] Within the context of organization, control may be defined as *a process whereby management or other groups are able to initiate and regulate the conduct of activities such that their results accord with the goals and expectations held by those groups*. Control amounts to more than just formulating goals and/or rules of appropriate conduct; it also extends to ways of encouraging the members of an organization to attach significance and give attention to what management deems to be important.[3] Seen in this light, control is a fundamental process of organization and much more than just the system that supports it. A "control system" is a mechanism that is designed to convey information to assist the initiation and regulation of activities, but this does not guarantee that the activities are carried out satisfactorily. The process of control, taken as a whole, aims at ensuring that a predictable level and type of outcome (performance) is attained and maintained.

Though control is rightly regarded as an essential aspect of management, we should bear in mind that managers are not the only group who will attempt to exercise control. Workers, technical staff, professional employees, and other organizational groups will also do so. This accounts for the paradox that control in an organization is not simply a process in which everyone shares with the same goals in mind; there can also be resistance and counter-control in pursuit of objectives that do not fully accord with those of management.

There is considerable ambiguity surrounding the term "control" despite the fact that it is in common, everyday use. In part this is because the term has both the narrow and broad meanings just mentioned – namely, control as a system and control as a process. Another source of ambiguity lies in the close relation that control bears to an equally fuzzy phenomenon: power. On the one hand, there is a purely functional aspect to control. In one form or another control is essential for an organization of people to achieve their objectives and to inform the future direction of their efforts. On the other hand, control depends upon power and it can therefore easily become perverted towards supporting exploitation.

Managers appointed by the owners of a company or their representatives, or by state agencies in the case of the public sector, enjoy legal authority over the conduct of the organization subject to periodic review. This legal position does not in itself guarantee that employees will accept managerial power. However, in organizations that they join voluntarily and are free to leave, employees are likely to accept a great deal of this power as being legitimate. They may be assured by an ability collectively to oppose a misuse of power by managers, and by the possibility of quitting the organization if the situation becomes intolerable.[4] Under these circumstances, power becomes legitimated as "authority" which employees are normally prepared to accept, at least in the conduct of everyday activities. Authority can be greatly enhanced when employees are offered rewards that they value for accomplishing what management wishes them to do.

Power and authority do not only reside with managers. For example, those members of an organization who possess relevant special knowledge enjoy the authority that stems from their expertise. Power can also be shared as a matter of policy. This is the principle of "empowerment." which can extend as far as self-managed organizational control, whereby decisions both on the determination of objectives and the means to attain them are shared. Whatever the distribution of power, however, organized activities will require a degree of control. This intimate relation between control and power gives rise to an alternative definition of control, namely *the use of power to secure the achievement of specified goals through organized effort*.

To summarize, control in an organization can be achieved through a number of attributes including:[5]

- *power*, such as the command of resources;
- *authority*, such as the rights delegated by legal owners;
- *expertise*, such as the possession of specialized expertise relevant to the organization's operations;
- *rewards*, such as the offering of payment at levels acceptable to employees, especially when elements in that payment are linked to performance goals. As discussed in the next chapter, non-financial rewards may also support control.

The following section looks beyond definitions and makes some key distinctions. The first is between strategic and operational control. The concept of control is also unpacked so as to identify different aspects concerning its extent and focus, and the characteristics of control mechanisms. An important distinction within the spectrum of control mechanisms is that between control based on authority and control achieved through the management of relationships and/or of identity. These basic distinctions help us in the next section to address the question of the options (strategies) for control and to link these to conventional and new organizational forms. The third main section then identifies the contingent factors relevant to choosing between different strategies of control. The issue of control is also discussed in later chapters that deal with two of its specific contemporary applications. Chapter 12 includes a section on control within multinational corporations, while Chapter 16 considers control in relation to the question of accountability in corporate governance.

Control in Organizations: Key Distinctions

Levels of control

There are two broad levels of control in organizations: *strategic control* and *operational control*. *Strategic control* is control over the means and methods on which the whole conduct and future direction of an organization depends. These include its capital, the form of assets in which the capital is embodied, and its strategic dispositions such as the markets or areas of need to be served, the communities and labor markets in which the organization is located, its external relations with suppliers, competing organizations, and government agencies. This is the level of control that those concerned about effective corporate governance normally have in mind.

The ability that management has to exercise power within organizations derives primarily from control at this strategic level. For this level of control allows it to re-deploy capital, which may entail closing sites and entertaining bids from communities to open new ones. Control over the provision of investment capital has, for instance, provided a basis for securing cooperation from local government authorities in development areas to secure "captured" local labor markets in which the one company becomes a dominant employer, and also for securing guarantees of assistance from workers' leaders in removing restrictive working practices, reducing manning levels, and promoting "industrial discipline." If management has the ability to recruit selectively from an ample supply of job applicants, this enables it to take on employees who appear more likely to accept managerial authority and to replace them should they not perform as management expects. The provision of company housing, of mortgages tied to employment in the company, and of non-transferable benefits such as pensions, are further examples of how control over strategic resources can be used to encourage, even coerce, employees into accepting management control within the organization – control which the mere provisions of an employment contract itself do not guarantee. A similar analysis could be made with respect to control in other strategic areas, such as dominance in a product market or monopoly over the provision of a public utility service. The general point is that the ability to exercise control within an organization at the operational level is largely dependent on, and certainly facilitated by, control at the strategic level.

The second level of control, *operational control*, comes closer to the main focus of this chapter. This is control over the work done within an organization, in the sense of determining how employees perform their jobs. The possibility of exercising operational control depends on the possession of power, especially if the people concerned are unlikely to cooperate spontaneously. Power may be used in an overtly coercive way, as when employees are threatened with the threat of dismissal, particularly in conditions of high unemployment when this would impact significantly on their livelihood. Power can also be used to offer material persuasion, such as incentives for attaining certain targets. A third use of power is through the command of the means of ideological persuasion. Examples are the ability to establish symbolic events such as periodic ceremonies or to finance a company magazine, both of which are intended to promote a sense of community and a cultural identification with the organization and its management.

Operational control, then, is a realization of the potential offered by the possession of power within organizations. While top management is likely to hold the largest share of such power because of its control over strategic resources, other groups will also possess some power to affect operations. Workers who have special skills required to carry out certain tasks, and who cannot readily be replaced, provide an example of a potentially powerful group. For example, when there is an IT failure, the services of the IT support staff are usually required urgently. Management, however, cannot easily predict when these services will be required and therefore make arrangements to bring in alternative assistance in the event of non-cooperation from their in-house specialists.

It is at the strategic level of management that objectives are established and translated, first into policies and then into specific plans of action. Whoever controls strategic resources and the means to secure them, such as raising finance, also determines objectives and policies for the organization. Despite the existence of extensive employee shareholding in some companies, such as retailers Publix Super Markets in the USA and the John Lewis Partnership in UK, it is not very common for ordinary members of a company to participate in the formulation of its objectives. As a result, these members may not fully share or understand top management's objectives, so giving rise to potential resistance to management control.

This possibility is heightened by the potential conflict of interests inherent in the employment contract due to the fact that wages and salaries are deficits on bottom line profitability. If this conflict of interests remains at the forefront of employees' minds, it will tend to sustain an active, and probably collectively organized resistance to managerial control. Such resistance will appear to those engaged in it to offer the best hope of protecting their interests in terms of, for example, the balance between effort required and payment offered, or the preservation of labor market power through restrictions on management's ability to erode employees' skills. Competitive pressures in the world economy are obliging managers to exercise more stringent control in an attempt to reduce costs, increase productivity, and respond more swiftly to market changes. Chapter 4 noted how cost reductions are often achieved through downsizing in a manner that threatens employees' immediate interests. In these circumstances, the short term quite reasonably tends to take precedence in people's minds, with some employees finding themselves no longer invited to share in the long-term rewards being promised. The result may be to generate demoralization among employees to the point where it more than offsets any cost savings that were originally contemplated.

Aspects of control

There are three principal aspects of control. These are the *extent* of control, the *focus* of that control, and the *mechanisms* through which it is exercised.[6]

EXTENT OF CONTROL

The extent of control concerns the degree to which control is exercised over a particular activity. It can be assessed in a direct way by reference to the range of decisions or areas of activity that a manager controls, either solely or jointly with others. The range of activities on which a manager receives information that could lead to his or her intervention, if deemed necessary, provides a less direct, but broader, assessment of the extent of control. The same distinction applies to the case of control within an alliance between companies, referring to the range of activities controlled by a partner company.

It is important to view control as a continuous variable rather than an all-or-nothing phenomenon. In other words, managers can exercise different degrees of control over their organization, and also distribute it to various levels and positions, rather than the issue being one of having either total control or no control. This allows for the possibility of devolving decision-making and other initiatives among different levels and sections of an organization without necessarily losing overall control in so doing. A basic tenet of new organizational thinking lies in the recognition that centralized control may no longer produce the best performance results. Chapter 4 noted how it can lead to costly administrative overheads, demotivate staff, and inhibit innovation and flexibility. The locus and distribution of authority is therefore an important policy choice, and specific mechanisms of control can be adapted to suit. As Chapter 11 will discuss, similar considerations apply to the organization of activities through alliances between partner companies, such as joint ventures. While gaining sufficient control over the alliance to safeguard its interests is an important consideration for any partner company, there is also a danger of over-control. The attempt to exercise more control than is necessary will not only incur additional direct costs – it could have negative consequences. If a company tries to exert too much control within an alliance¸ this may threaten the quality of its relations with its partners. Moreover, if partners either singly or together try to control their alliances too much, this may inhibit the flexibility that the latter need in order to develop within their own competitive environments. So, as Ohmae has argued, "managers must overcome the popular conception that total control increases chances of success."[7]

FOCUS OF CONTROL

The realization that control in organizations does not have to be an all-or-nothing phenomenon raises questions concerning the activities and issues to which a control system should be primarily directed and at what level in an organization should control be exercised. These questions have to do with the appropriate focus of control. Given that exercising control entails management costs and has potential demotivating effects on the people subject to it, it is wise to give serious consideration to how control should be focused.

In practice, companies typically focus a more intensive level of control onto specific activities, decisions, or processes. For example, many multinational corporations (MNCs) consider it essential to control product quality centrally from the corporate level, through enforcing rigid standards. The intention is to protect the integrity and reputation of their global brands, which could be severely damaged by a local failure in quality. The potential threat to their corporate reputation of an environmental failure in a given locality is similarly a consideration leading many MNCs to control their environmental standards centrally. By contrast, an MNC may consider it appropriate to exercise a looser form of indirect control over the HRM and marketing practices of its foreign affiliates because it is functional to adjust these to local cultural and market conditions. Even within a given unit of a company, control may be focused more on some activities than on others.[8]

The implication of the focus dimension for managerial control policy is that it is normally optimal to exercise control selectively. This means, first of all, making a clear distinction among activities and decisions for which it might be appropriate to adopt a different level or type of control. Studies that provide checklists of common activities and decisions can be useful here.[9] Secondly, a view has to be taken about the intensity and method of control appropriate to each of them, which raises questions such as what operational information to require, and what discretion to permit the persons carrying out the work to evaluate their own performance and decide on any corrective action. Looked at internationally, the criticality of some activities in foreign markets is likely to be greater than that of others. For example, the resource deficiency of many developing countries in technology and marketing systems may lead an international company to consider these among the key items for it to supply and control in order to achieve their viability and to protect corporate reputation. In view of the problem of corruption in many developing countries, MNC also usually deem it necessary to control the financial management of their affiliates there.

MECHANISMS OF CONTROL

A large range of control mechanisms is available and it is usual to employ several of them in combination. The main configurations of control mechanism become distinct strategies of control, and these are described in the following section. The characteristics that distinguish different control mechanisms concern:

- their negative or positive nature;
- their formality or informality;
- how they work;
- their emphasis on the feedback of past information as opposed to the "feed forward" of predictive information.

The first distinction is between *negative* and *positive control mechanisms*. Managers use negative mechanisms to prevent other members of an organization from taking unapproved actions. A typical example is the laying down of a requirement that specified decisions have to be ratified by higher levels of management or even the board of directors. This is likely to apply to matters such as capital expenditure plans and budgets, and senior appointments. Negative control depends principally on rules and other formal provisions. Employment contracts, for example, can lay down restrictions on the disclosure of information to parties outside the organization, a notorious example being the restrictions imposed on UK government officials by the Official Secrets Act. Many companies insist on similar contractual restrictions with regard to proprietary technology.

Other mechanisms are positive in nature because they are used to encourage and promote desired behaviors. Positive control lies at the core of many contemporary HRM practices. The provision of HRM programs and systems for selection, training and development, appraisal, career advancement, and compensation, can both help to control the quality of an organization's staff and generate understanding of, and commitment to, the norms of a strong corporate culture.[10] MNCs, in particular, are interested in promoting their corporate cultures to improve the control, as well as the integration, of their foreign affiliates. Even processes like consultation and participation, which may be desirable for other reasons such as improving the quality of decision-making, can serve as positive control mechanisms if they result in a greater commitment among employees to the implementation of decisions.

Secondly, control mechanisms can be *formal* or *informal*. Procedures for making staff appointments and the specified criteria for awarding rises in salary are among the more significant formal controls. The formalization of upward reporting relationships and planning and approval processes for capital budgeting plus resource allocation are other prominent examples. As with any formalization, the problem of rapid obsolescence arises in the fast-changing conditions of today.

Consequently, there has been a growing interest in the potential of more flexible, informal control mechanisms. One approach is to foster regular contact between managers and lower-level staff in the organization, in the expectation that such contact will lead to several benefits: (1) greater personal commitment to management's objectives for the organization; (2) a more flexible readjustment to changing circumstances, and (3) a larger number of innovative suggestions. It may be possible to do this on a personal, face-to-face basis through meetings and social events or, failing that, through regular, personalized video and other communication. Technical, advisory, and managerial inputs given by corporate staff to affiliates on a continuing basis, accompanied by the maintenance of close relations between staff at the two levels, can have considerable potential for enhancing the corporate center's operational control. This more informal and personal approach to control is recommended by advocates of new organization as being compatible with devolved initiative among employees and teams. It does not necessarily involve much reliance on personal supervision in the sense of the traditional, personal, centralized control strategy to be discussed shortly. Rather, it can serve as reinforcement of a strategy that fosters control through normative and "cultural" means (see "cultural control" below).

The third distinction concerns *how control mechanisms work*. They can influence the nature of what is done, the context in which it is done, and/or the processes by which activities are carried out.

Content-oriented control mechanisms rely on the specification of items of substance, such as the prohibition of theft from factory workshops. *Context-oriented* controls, by contrast, are those that aim to create an attitude of mind among the members of an organization that supports the attainment of managerial goals. The fostering of a strong corporate culture would be one approach toward generating an understanding and acceptance of such goals. A norm expressed by a corporate culture may, for instance, be the desirability of working flexibly as the situation requires. This illustrates a potential advantage of this approach, namely that it can in principle apply to any situation, including unforeseen circumstances. *Process-oriented* controls rely on the control effect of shaping the process whereby things are done in or by the organization. A prime example, already noted, is to encourage staff to participate in making decisions with a view to securing their commitment to getting the decisions implemented successfully. This approach is characteristic of the approach to decision-making in larger Japanese firms through the so-called *ringi* system in which proposals are widely circulated for comment by organizational members.[11]

The fourth distinct aspect of control mechanisms concerns whether they are based on *feedback*, or whether they incorporate *"feedforward,"* or both. Traditional systems of management control operate on the basis of providing information on past events. The problem in a rapidly changing environment is that much of that feedback soon becomes irrelevant. The contrasting principle is to promote feedforward. This takes place when predictive information is used as a basis for assessing whether and how it is necessary to adapt. It can enter the management control process through various channels, such as upward reporting by employees who are in direct contact with external events, or information secured by managers through their networking and subscription to information sources on trends and new developments. Feedforward thus tends to rely on a wide range of information sources, which brings it into line with the new organizational thinking that control can no longer be placed exclusively in the hands of top managers.

Strategies of Control

It has become apparent that control is a complex process that organizational design can shape only to a certain degree. The paradoxes and contradictions inherent in organizational relationships mean that there is likely to be resistance to management control by other groups seeking to enforce their own measures of control. This in turn means that it may be misleading to account for resistance to control and attempts to subvert it, purely in terms of the control strategy being inappropriate. Much has been written about how certain control strategies, such as close supervision and a heavy reliance on rules, are incongruent with the personal psychological needs of mature adults.[12] There is also a growing interest in finding approaches to organizational control that can at the same time be experienced by employees as fair and not destructive of their trust in management.[13]

There are two areas of interpretation at play here. The first concerns the way that control is applied and whether this is positive with regard to the sense of personal dignity, norms of fairness and conditions for trusting others that individuals carry with them. This first area is primarily to do with the means of control and how these suit psychological needs. The second area is primarily to do with the content of control, including the criteria that management is applying in the control process to specify objectives and performance levels. This second area constitutes a wider context for the application of organizational control. If applied without regard to this wider context, an emphasis on control mechanisms and how far they suit psychological needs could give rise to the expectation that resistance to control would disappear once an appropriate strategy of control were adopted. While the psychology of control is certainly relevant, it does not tell the whole story, except perhaps for those members of an organization who are entirely committed to management's goals and policies. In their case, the problem would simply be one of finding a style of management control that was acceptable – there would be no conflict with its content and rationale. But when employees do see themselves to be in conflict with management, no control strategy, however sensitive to psychological considerations, is likely to be received entirely without resistance.

One of the paradoxes about control in organizations is that it is directed at some issues on which there may be consensus between management and employees, but also at others over which there can be conflict. When there is a matter in dispute, an increase in control achieved by employees over that issue would be at the expense of the amount of control available to management, and vice versa. Control then takes on a "win–lose," zero-sum character. An example might be control over the level of manning in a department. Where there are issues on which the different parties may be able to agree readily, such as safety, control avoids this win–lose character. It is possible to share control and for an increase in the devolution of control to employees not to mean a loss in control by management. In practical terms, this conjunction of conflict and consensus indicates the appropriateness of adopting a portfolio of control strategies rather than just one. Each strategy would be directed toward different issues according to the degree of conflict or consensus involved and, similarly, different approaches might be followed toward different groups within the organization.

For example, where conflict is liable over the rate at which employees work, one might expect to find management primarily relying on control through direct supervision of the work being done or, where performance can be measured, through tying payment directly to work rate. Where there is a high degree of consensus, such as over safety, one might expect management to maintain control on the basis of an appeal to the identity of aims, such as campaigns urging workers not to take personal risks. On matters of consensus, discretion is more likely to be delegated to the employee. Moreover, categories of employees whose acceptance of managerial aims can generally be taken for granted and who are usually highly trained as well – development engineers are one such example – will tend to be subject to a far less direct mode of control than will groups of employees who are likely to resist managerial objectives and/or who may require more technical guidance.

Another reason for management finding it appropriate to pursue a portfolio of control strategies is that control is not likely to be aligned to a single objective. Management has to have regard to efficiency, which tends to be a short-term, "here and now" objective. At the same time, it also has to ensure that the organization can adapt to new circumstances, which requires preserving some flexibility in working arrangements. Management may, in addition, be concerned to encourage the creative capabilities of employees and the whole organization's capacity to innovate and learn. This will require some space to permit creative thinking and experimentation. A mix of objectives speaks for a corresponding balance between control strategies. For instance, an all-out emphasis on controlling for efficiency may jeopardize attainment of other objectives if it destroys the goodwill among those employees required to adapt working arrangements, eliminates creative space, or removes investment in staff development. The need to design a mix of organizational arrangements to suit a combination of strategic priorities is elaborated further in Chapter 17.

The appropriate position for an organization to adopt on each control dimension will therefore vary according to its circumstances. These dimensions are not, however, independent of each other, but in fact serve complementary functions for management. For example, the use of formalization as a means to "structure" the activities of people within an organization can facilitate both an increase in delegation and a reduction in close supervision. Research on the structural development of Canadian post-secondary colleges illustrates this complementarity between dimensions of control. It is also one of the few investigations to have examined how the use of control mechanism changes over time as organizations grow, as described in Box 6.1 below.

BOX 6.1 CHANGES IN CONTROL MECHANISMS AS ORGANIZATIONS GROW

A study of 23 post-secondary colleges in Alberta and British Columbia provides interesting insights into how methods of control tend to change as an organization grows. Changes in control are also to be expected if organizations diversify their activities and locations.

As the colleges grew larger and older, the following changes occurred. They steadily increased their reliance on formal controls. At the same time, they increased their delegation of decisions over the earlier years. The amount of delegation then fell back before increasing again in later years. Reliance on personal supervision by middle managers and supervisors rose at first in step with delegation by top management, but later on tended to decline.

These relationships point to a number of tentative conclusions. First, the difference between smaller, younger versus larger, older organizations was marked. The small, young organization tended to have little formalization, was highly centralized, and had a moderate amount of personal supervision by middle managers. As growth proceeded, delegation increased, but this was accompanied by a rise in both personal supervision and, after a while, formalization. Then a crisis of control appears to have been reached in which formalization was increased quite markedly, delegation decreased, and the use of personal supervision declined. At this point, it appears that formalization was rapidly being instituted as a control strategy in place of reliance on direct supervision and that, while formal procedures and job definitions were being implemented, some degree of re-centralized decision-taking had to compensate for the reduction in direct supervision. In later stages of development, formalization tended to increase fairly steadily, and delegation was re-instituted and extended.

Source: D. Friesen, R.P. Heron, E.A. Holdaway, J.G.T. Kelsey, and L.E. Sackney. *Organizational Structures: The Educational Sector*. Edmonton: The University of Alberta, February 1978.

These interpretations of Friesen and his colleagues' findings make the point that managers are presented with some choice in their approach to control, in that different configurations of control dimensions are possible. This choice will probably be constrained by the prevailing situation, but should nonetheless allow for some expression of what is felt to be desirable managerial philosophy. Today, in view of the need to secure sufficient flexibility to cope with present rates of change and the need to motivate employees and make best use of their capabilities, there is a growing interest in finding ways of promoting committed self-control and relaxing the more structured control mechanisms.

There are six particularly significant strategies of control in organizations. Their features are summarized in Box 6.2. Each control strategy is based on a different configuration of control mechanism dimensions. Although more than one strategy can be adopted within a single organization, these will tend to be applied to different types of unit undertaking different types of work, or located within different cultural milieus. The attempt to apply more than one strategy to a particular group of people engaged on similar work could be counter-productive. It runs the risk of exposing employees to inconsistencies and destroying initiative, if not actually provoking active resistance due to resentment at what is perceived as control overkill.

This may even be the case with what is termed "cultural control" in Box 6.2. Cultural control can be used to reinforce the other five types, especially "HRM control." Nevertheless, employees who accept cultural control in its fully developed form may well resist a heavy application of other strategies. In Anglo-Saxon cultures at least, with their emphasis on individualism and personal independence, a cultural approach to control will normally be allied to a philosophy of empowerment and self-control. There is some evidence to suggest that the heavy imposition of control through the simultaneous use of more than one strategy may be more common in situations where passive acceptance of authority is the norm, combined with low trust and low skills, e.g., the employment of migrant workers from developing economies. This is not, however, normally the recommended basis for a healthy organization.

Personal centralized control

This control strategy is often found in the small, owner-managed firm. It is also a form of control historically associated with the subcontractor in building and civil engineering, the "butty" in coalmining, and comparable arrangements in general engineering and iron and steel making. Centralization of decision-making and initiative around a leadership figure is fundamental to this approach. Decisions are passed to the person at the top of the organization or whoever is in charge of the unit concerned. The control process consists largely of ensuring, through personal inspection and reporting, that such decisions are carried out. The leader may in fact spend a significant proportion of his or her time personally supervising the work being done. When an organization becomes large enough to employ someone to supervise the details of everyday operations, a separation occurs between centralized decision-making and close supervision. Both continue to be done in person, with the supervisors of work now reporting personally at frequent intervals to the leader. The leader's authority generally rests on rights of ownership, very special personal qualities (charisma), or technical expertise. A major criterion in allocating rewards and punishments is likely to be obedience to the leader's authority. Under these circumstances it is, of course, easy for favoritism to develop and distort the feedback of information to the leader.

BOX 6.2 SIX STRATEGIES OF CONTROL IN ORGANIZATIONS

1 *Personal centralized control*
  1.1 direct supervision of people's activities
  1.2 centralized decision taking
  1.3 personal leadership: founded upon ownership rights, charisma, and/or technical expertise
  1.4 rewards and punishments reinforcing conformity to personal authority
2 *Bureaucratic control*
  2.1 breaking down of task into easily definable elements
  2.2 formally specified methods, procedures, and rules applied to the conduct of tasks
  2.3 budgetary and standard cost-variance accounting controls
  2.4 technology designed to limit variation in the conduct of tasks, with respect to pace, sequence, and possibly physical methods[14]
  2.5 routine decision-taking delegated within prescribed limits
  2.6 reward and punishment systems reinforcing conformity to procedures and rules
3 *Output control*
  3.1 jobs and units designed with responsibility for complete outputs
  3.2 specification of output standards and targets
  3.3 use of "responsibility accounting" systems
  3.4 delegation of decisions on operational matters: semi-autonomy
  3.5 reward and punishment linked to attainment of output targets
4 *Control through electronic surveillance*
  4.1 speed and quality of work recorded and assessed remotely via information and communication technology (ICT)
  4.2 employee's performance assessed against that of other employees and trends
  4.3 such monitoring of performance used to reward and discipline employees
5 *HRM control*
  5.1 use of selection methods to ensure that new recruits "fit" the profile of attitude, behavior, and capabilities desired by management
  5.2 training and development designed to reinforce this desired profile
  5.3 assessment procedures and reward systems used to encourage conformity
6 *Cultural control*
  6.1 development of employees' personal identification with management goals
  6.2 strong emphasis on the collective and mutually-supportive character of the organization – e.g., analogy with the "family"
  6.3 employment characterized by security of tenure and progression within the organization
  6.4 semi-autonomous working: few formal controls

BOX 6.3 A PERSONAL CENTRALIZED CONTROL STRATEGY

A five-star hotel was purchased and redeveloped in a world famous resort by a property company belonging to a family of Mediterranean origin. The hotel offered a range of services. In addition to guest accommodation and food and beverages, it also provided conference facilities, shopping, apartments for rent, and public parking. Each morning, all the heads of department would assemble in the owner's office. The owner's two sons, who were being groomed to assume senior positions, were normally present as well. During the meeting, the owner would question the managers in turn about events the previous day, as well as the intentions for that day and the near future. He then issued instructions to each manager. Sometimes, the owner would also mention future developments concerning the hotel as a whole or one of its associated properties. The tone of the meetings, which I witnessed personally, was very deferential and there was an implicit process underway whereby the loyalty of each manager to the owner was reaffirmed. As a control and motivational procedure, these meetings appeared to work well. Given the relatively small size of the organization and high profile of its operations, it seemed unlikely that the significant power distance between the owner and his managers would permit the latter to distort the feedback information they provided. Their loyalty was further reinforced by the fact that they were all long-service staff who were treated generously. They and their families were, in effect, "retainers" of the owning family.

Source: Author's personal observations.

Box 6.3 provides an illustration of the personal centralized control strategy in use.

Bureaucratic control

The bureaucratic control strategy is a familiar one, not only in the public services where it may be said to have originated, but also in larger organizations of all types. Its rationale is the attempt to ensure predictability through the specification of how people in the organization should behave and discharge their duties. The most characteristic feature of the bureaucratic control strategy is formalization in the sense of written and standardized definitions of responsibilities and procedures. Scientific management was a classic example of this control strategy as applied to manufacturing industry. It advocated the "three Ss:" *Specialization* that, through the *Simplification* involved, permitted the specification of *Standard* methods for how each element of the job should be carried out. This approach to control remains in wide use throughout the world, even in recently emerged types of work unit such as call centers.[15]

Reward and punishment systems can be designed with the intention of reinforcing this control strategy. Compliance and "keeping your nose clean" can be rewarded by upgrading, admission to staff status, the award of more favorable employment benefits, and (not least) job security. These prospects of admission to the privileged sector of employment – which labor economists call the "primary" segment of the internal organizational labor market – have close affinities with the offer of job security and progression of benefits available to the compliant official in a public service bureaucracy. Non-compliance will, by contrast, normally involve an increasing order of sanctions ending with dismissal.

The accounting control systems that are most compatible with the bureaucratic strategy of control are budgets and control of variance from standard costs. Budgetary control involves a regularly repeated process of formulating a budget, often on an annual basis, followed by a set of budgetary reports usually submitted on a more frequent basis (often monthly). Since budgets are typically broken down into expenditure norms for specific tasks or operations, they are in effect structured controls over the behavior of units, groups, or individuals. Similarly, a standard cost-variance control system involves a process of determining what the level of costs should be under specified operating systems, using these costs as standards of performance, measuring actual cost performance, and then evaluating this against the standard costs. The determination of standard costs in effect establishes a major parameter for the ways in which subordinates can set about their work. The whole bureaucratic strategy is aimed at the control of how things are done and how people in organizations should behave. It is in this sense a "behavior control" approach that contrasts to the "output control" approach discussed below.[16]

The bureaucratic strategy of control clearly allows for only limited flexibility. If budgets and standards have to be revised frequently, this becomes a very costly exercise that diverts effort from value-adding work. A more flexible approach would not attempt to specify behavior so closely, if at all, but would rather focus on overall objectives and how people were progressing toward their achievement. For example, a close monitoring of cash flow would replace the use of detailed budgets. If a unit were a cost center, its total expenditure would be monitored against targets rather than specific elements that it would be functional to change as tasks were accomplished. These developments are more compatible with the devolution of overall performance responsibility to units and teams and represent a shift toward output control.

Another problem lies in the way that bureaucratic control attempts to impose norms and procedures uniformly on all employees, regardless of their personal strengths or weaknesses. As the example in Box 6.4 illustrates, a bureaucratic control system designed to suit most employees can for this reason end up alienating one of the company's best performers. You might like to consider how this dilemma could be resolved.

Output control

This control strategy depends on having the ability to identify tasks that are complete in themselves, in the sense of having a measurable output or criterion of overall achievement. An output in this sense does not have to be an end product – it could be a piece-part manufactured to agreed specifications, a batch of microchips, or a sub-assembly. Common criteria of achievement are quantities of items processed, value added, and profitability. These criteria can be applied to individuals, groups, product lines, and whole units, as is appropriate according to how work is organized. In the case of many services, the measurable output would be the whole service based on satisfaction expressed by the customer, though some services like transportation can have their performance broken down into separate elements like punctuality, comfort, and staff courtesy.

BOX 6.4 "DEAR HOME OFFICE: DO YOU READ ME?"

Charles (Hap) Clonninger is an outstanding life insurance salesman – he knows it and the company knows it. His monthly total of policies written in dollar value consistently places him in the top ten percent of all company agents. And, the more he sells, the easier it becomes. As Hap (for Happy) himself put it some time ago, "sales build confidence in a man and confidence in himself is what motivates a man to do still more. It just builds and builds."

Clearly, Hap Clonninger is a highly motivated and productive insurance agent. The company has recognized Hap's contribution over and above the usual generous sales commissions. For example, in the past three years, Clonninger has received:

1 a two week, all expenses paid trip for himself and his wife to Nassau in the Bahamas as one of the top ten producers for the year;
2 a weekend in Mexico City (paid, of course) for top dollar sales in the month of January;
3 free tickets to numerous theatrical and sporting activities;
4 a weekend in Pasadena, California, for the annual Tournament of Roses Parade and two tickets to the Rosebowl Game;
5 numerous sales citations and plaques that are prominently displayed in his downtown Atlanta office.

Hap Clonninger has also been recognized by industry professionals outside his company and was recently elected to the position of Vice-President, Georgia Chapter, of the Insurance Executives Association.

Cloninnger thoroughly enjoys his work and claims he wouldn't trade places with anyone. "I don't really think of myself as a salesman," he often says; "I prefer to think of myself as someone who helps people build their estates . . . a sort of financial planner and advisor. It is very satisfying work and I can immediately see the rewards for my efforts."

It seems, though, that no job is perfect in every respect and there is one part of his work that does irritate Hap Clonninger: a required company report in narrative on sales prospects.

"That damned report kills a whole day each month!" says Clonninger. "Imagine, *an entire day* a month filling in six pages of questions in straight narration on how I propose to close sales for the next month.

"I mean, I can see the company's point of view, particularly with new and inexperienced salesmen. A detailed form such as this one forces a new man to work out a sales plan for the coming period. It helps the man because it transforms fuzzy or vague ideas in his head into a workable plan on paper. The form also helps the company because it shows that the agent really does have a well-defined sales plan. It can also serve as a basis for monitoring his progress . . . how well he actually does compared with what he said he would do.

"But that monthly Sales Plan doesn't really have any value to the company or to me so far as my efforts are concerned. It probably has little or no value to any other top agent either. We have so many deals cooking all the time that we don't bother to work from a plan.

"One month, about a year ago, I didn't send in the report for the first time since I've been an agent for the company. I thought if nothing was said I'd skip it from then on. Wow! You'd think I'd committed grand larceny! I received formal notices from two vice-presidents and several, more lower-level bureaucrats about the omission and so I figured it wasn't worth fighting the system . . . I'd continue submitting sales plans as in the past.

"Some time later though it occurred to me that the *only time* I had heard any feedback about my monthly report was in the month that I failed to turn it in! *At no other time in recent years could I recall anyone commenting on or questioning my sales plan*.

"Four months ago, on the day of the report, I was feeling pretty good. I had just sold a big policy to a supermarket executive and was in no mood to write the report. But, conditioned by years of compliance, I started plugging away at it.

"About halfway through, on page 3 or 4, I suddenly wrote, 'If anyone has bothered to read this far, I, Hap Clonninger, will personally buy him a martini.' You know, I didn't have to buy a single martini . . . and that report crosses at least four desks!

"The next month I wrote in the middle of the text, 'This report has been prepared by the world's greatest insurance salesman.' Again, no response from home office.

"Still there was the possibility that the report was being read, but that my remarks were being ignored as whimsy. So, I decided last month to really test the system. On page 2 under the heading of new prospects, I wrote:

'Edgar Millikan (company president) is a dirty old man and a poor insurance risk.'

Would you believe that I got no response? Nobody reads the monthly report . . . but if I don't turn one in . . . Wow!"

Reproduced from Robert D. Joyce, *Encounters in Organizational Behavior*. New York: Pergamon 1972: 17–19.

Once outputs or criteria for overall performance have been identified, it is possible for management to specify output standards and targets. Rewards and sanctions can be linked to the attainment of performance expressed in output terms. In this way, a direct incentive is created for employees to meet and surpass output standards. The effectiveness of this incentive will depend greatly on the degree of trust in management's intentions to honor the equation between rewards and performance. If this trust is lacking, both the incentive value of the system and the accuracy of information released to management are likely to suffer. Assessments of performance are liable to create tension and resentment if any suspicion of inequity is present.

"Responsibility accounting" is the kind of financial accounting system most suited to an output control strategy.[17] This assigns financial responsibility to specified organizational sub-units, measures the performance of those units, and provides feedback on performance both to the people assigned responsibility and to their manager. The assignment of responsibility for a rounded activity may be in terms of *investment centers* in which the people concerned have authority over revenues, costs, and capital investment; *profit centers* where authority is delegated over revenues and costs, but not investment; or *cost centers* where authority is delegated over costs, but not over revenue-generating decisions or capital investment.

An output control strategy is aimed at facilitating the devolution of operational decision-making without incurring the costly and potentially demotivating paraphernalia of bureaucratic controls or of relying on close personal supervision, which can also be demotivating and adds to managerial overheads. Once output standards have been agreed with staff, it is often possible to leave them free from detailed control over how they do things, in a semi-autonomous relationship to management. This strategy also has the merit of directing the process of control toward the issue that really counts for the long-term survival of an organization – its performance. It is, however, important to minimize the conflicts that can arise between the criteria assigned to different sub-units competing for resources or (sometimes) for custom in the same market.

Output control is therefore in principle an attractive strategy and one that is generally consistent with the adoption of new organizational forms. What then are possible obstacles to its adoption? One problem is that the autonomy given to working groups or teams, which output control encourages, can stand in the way of introducing technological advances that require a more integrated process combining tasks previously performed separately by each group. An example would be the introduction of automated transfer equipment. In this case, it may be feasible to shift the focus of output control up a level to plant rather than group output. Another problem can arise if workgroups resist management's suggestions for improvement because they suspect that these are the prelude to renegotiating downwards their rate of payment per unit of output. The question of trust is clearly an issue here. A technical problem with output control may lie in the difficulty of establishing suitable and agreed measures of output. For instance, while it may be possible to measure the output of advisory and staff groups in terms of, say, the number of reports they produce, it may be more difficult to judge the quality of those reports. On the other hand, if the processes whereby results are achieved are not well understood, and therefore not codifiable by management, a form of output assessment may be called for because it is not feasible to apply a bureaucratic approach. Some professional and industrial research activities fall into this category.

Control through electronic surveillance

Surveillance itself is not a new form of control. It is central to control through direct personal supervision. The new aspect of surveillance lies in the application of electronic means for performance monitoring.

The essence of control through electronic surveillance is that the speed and quality of work is recorded and assessed remotely through the use of information and communication technology, including video. This avoids costly reliance on personal supervision, and also has the advantage that the control data captured is precise rather than impressionistic and subject to managerial bias. An employee's performance can through these means be assessed against that of other employees and with reference to trends over time. This precise monitoring of performance can in turn readily be used as the basis for rewarding and disciplining employees.

Electronic surveillance is being applied to many types and levels of activity. As early as 1990, some 10 million workers in the USA, including many managerial and professional employees, were subject to it.[18] By 2001, nearly 80 percent of the large to medium-sized companies surveyed by the American Management Association were checking employee's email, Internet, or telephone connections, or videoing them at work. This percentage had jumped from 35 percent in 1997. A subsequent American Management Association survey in 2007 of 304 US companies concluded that:

> From e-mail monitoring and website blocking to phone tapping and GPS tracking, employers increasingly combine technology with policy to manage productivity and minimize litigation, security, and other risks. To motivate compliance with rules and policies, more than one fourth of employers have fired workers for misusing e-mail and nearly one third have fired employees for misusing the Internet . . . Computer monitoring takes many forms, with 45% of employers tracking content, keystrokes, and time spent at the keyboard. Another 43% store and review computer files.[19]

One of the earlier applications of control through electronic surveillance was the recording of the keystrokes achieved by operators at workstations or PCs. Pressure for university teachers to place their materials on organizational websites and communicate with students via email and computerized "chat rooms" provides an example of the potential electronic surveillance of professional work.

Call centers provide an increasingly common example of tight control relying partly on electronic monitoring. By 2002 call centers accounted for 3 percent of the working population in the USA, and it was estimated that in 2011 they accounted for 3.5 percent of UK employment, or over one million people.[20] Automated call distribution systems (ACDs) enable management to direct the allocation, character, and speed of the tasks to be done. The performance of individual call center staff ("customer service representatives") can be monitored and evaluated, and compared within or across sites.

In a case study reported by Callaghan and Thompson, the call center had specified 19 core standards of behavior and 7-point scales to measure the skills of operators during appraisal. The surveillance of calls from customers was undertaken by a "research department," which conducted random checks and responds to customer complaints, as well as by team leaders who listened to at least five calls per week. Statistics on how many calls are taken, how they are handled, where they are directed, and their average time, are collected and graded as the basis for feedback, discipline, and appraisal. The target is that no more than three calls out of every ten thousand should generate complaints.[21] Needless to say, the front-line call center staff dislike the pressure that this form of control places on them, and there is evidence that it leads to emotional exhaustion.[22] Many challenge the objectivity and appropriateness of relying on electronically produced statistics to encourage a uniformity of response and pressure for speed that does not take account of the individual needs of each customer. Although call centers may well attract recruits who do not expect to stay many years in the job, the nature of the control to which they are subjected contributes to high labor turnover and low morale.[23]

HRM control

The primary activities of human resource management (HRM) are identified in Figure 6.1, which also indicates how they are seen to relate in the form of an HRM cycle.

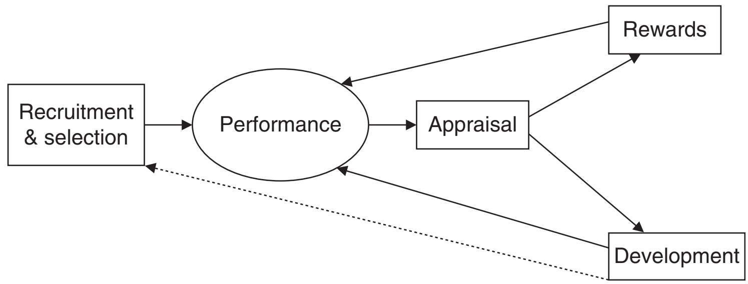

Figure 6.1 The Human Resource Management Cycle

The recruitment and selection of new employees is intended to improve an organization's performance through matching individuals to the work or activities that need to be carried out, as well as through attracting people with good developmental potential. The performance of managers and staff is appraised at regular intervals. Appraisal should provide feedback to the people involved, assessing their needs for further development and training, and allocating recognition and rewards. If the reward system is appropriate, it should help to motivate the kind of achievement and behavior that contribute to better performance. Similarly, if the training and development programs offered to employees are attuned to their needs in relation to the requirements of their job, these again should contribute to better performance. If it turns out that a significant amount of investment in development is necessary for people to perform adequately, this information provides feedback relevant to the selection process because it indicates that the people being selected for employment do not possess the right kind of capabilities at that time.

HRM procedures can be used both to develop people at work ("human resources") and control their behavior and performance. They are part of management's control armory in that they enhance the contribution that people at work make to the achievement of organizational goals and objectives. Systematic selection techniques are designed to ensure that new recruits fit the profile of attitude, social skills, and technical competencies that management is seeking. Performance evaluation and appraisal provide feedback both to management and to employees themselves. In many organizations today, these processes are highly formalized. Feedback on performance is increasingly expected to be constructive, in the sense of identifying possibilities for achieving more ambitious goals and the improvement in capabilities and job conditions needed to accomplish this. As Chapter 7 discusses in detail, a further contribution that HRM can make to the process of control is through designing rewards that provide incentives for people to achieve such goals.

Cultural control

Cultural control has been strongly associated with moves away from conventional organizational forms. Its rationale is one of maintaining control by means of internalized compliance rather than external constraint. It aims to ensure that the members of an organization willingly comply with managerial requirements on the basis both of accepting the legitimacy of management's authority and identifying with its goals. This is an approach to control that relies on shaping employees' understandings of how they stand in relation to their work and their employer. This kind of organizational control is accomplished through employees willingly accepting a managerial interpretation of their work and their organization, and with which they come to identify.[24] Trust in management is a condition for such identification.

Perhaps the most striking example of cultural control is to be seen in the larger Japanese corporations where extremely high levels of productivity and employee loyalty have been the norm. An important foundation for this commitment has been a common socialization into the corporate culture and the ready acceptance of its values and beliefs. In Japanese companies, and many larger corporations elsewhere too, programs have been devised to break down sectional identities and instead to generate an awareness of, and commitment to, a common corporate identity. The methods employed for this purpose include "awareness training" at education centers, corporate videos and other communications, and social gatherings organized by managers and team leaders.

Critics have called such activities a form of "compulsory sociability."[25] The cultural control strategy places a heavy emphasis on the collective and mutually supportive character of the organization and often invokes an analogy with the family. For this to remain credible, employers must also be willing to accept the obligations of family heads to protect their members, especially with a guarantee of job security and opportunities for employees to progress within the organization. It remains to be seen, however, when faced with severe pressures to rationalize and restructure, how many of the major Japanese companies will continue to offer this baseline support. Certainly, many American corporations, when faced with a squeeze on earnings, have shown little compunction in laying off employees, thereby pulling the rug from under the credibility of corporate culture programs and destroying the trust that is essential to them.[26]

It is actually quite difficult for employers and senior managers to avoid entanglement in contradictions when they espouse cultural control, as many have sought to do. One contradiction concerns the way that a strong corporate culture is supposed to provide an alternative to control. Despite the claim that the development of a strong and widely accepted corporate culture permits the granting of high levels of autonomy, in practice strenuous efforts are usually made to ensure that employees conform to the norms and rituals of that culture. Corporate culture building is in fact usually undertaken or advocated with control in mind. It is regarded as an exercise to develop an appropriate social order that provides the basis for desired behavior. Working as it does through the shaping of people's attitudes, cultural control is often combined with an emphasis on HRM control. The thinking is that, in order to let people loose to be "autonomous," they have to be mentally programmed first, with a key role here for selecting suitable candidates and then socializing them though appropriate training. As Thompson and McHugh have commented, "through team practices and family rhetoric, the company produces 'designer employees' who buy into the secure identity offered by the simulated community."[27]

Similar to output control, managers have to accept that subordinates who are subject to an effective regime of cultural control can be given considerable discretion on how to go about their work, assuming that they possess the necessary skills and abilities. For they will have an understanding of the goals set for the organization and an enthusiasm to work towards them. Management can contemplate semi-autonomous modes of working if there is a high degree of consensus within the organization. Acceptance of a common corporate culture can assist in maintaining cohesion between the activities of teams and other component units of the organization, and this acceptance is more likely if the staff concerned have participated in a process of defining organizational goals.

These features of cultural control offer clear advantages over other forms of control in companies seeking to encourage informed and flexible behavior on the part of well-educated members. For a company that is seeking to achieve a differentiated market appeal based on superior products and services, most other forms of control have significant drawbacks. Centralized personal supervision is liable to create top management overload and be unduly restrictive of initiative and innovation. Bureaucratic control relies on the prior prescription of actions and behaviors that in present conditions can become obsolete even before they are introduced. Both personal and bureaucratic control can also be highly demotivating, especially for knowledge workers. Output control does permit devolved autonomy, but it also relies on the ability to specify standards and targets. At the very least, these may have to be revised at frequent intervals under conditions of hypercompetition and rapidly changing environments. Electronic surveillance also depends on the ability to specify performance standards, which may be feasible with relatively routine work, but less so with non-routine, creative activities.

Despite the psychological and social manipulation, even sheer hypocrisy, that has often accompanied the use of cultural control, it is actually in tune with two long-term trends noted in Chapter 3. One is the increasing numbers of professional and other knowledge workers in the working population; the other is the growing use of organizational clusters, alliances and networks in supply and value chains. Cultural control has long been applied within the professions, where it has combined with personal autonomy to follow strongly internalized norms of competence and correct conduct. Professional people, more than most, resent having external managerial control imposed on them when they become employees of, or contracted to, large institutions. The rising proportion of knowledge workers is therefore establishing the need for a new approach to control that relies more heavily on internalized self-control.

The second trend is that increasingly organizations are working cooperatively, whether this be cooperation between companies or public agencies. Part III of this book focuses on this phenomenon. In such collaborative and partnership relationships, control has to rest primarily on a definition and acceptance of mutual obligations, supported by trust between the parties who are involved. This means substituting relational control for the more traditional hierarchical approach. As John Hagel and his co-authors have written, this is "a trust- and relationship-oriented concept of organizational 'control' that acknowledges mutual obligations and responsibilities among partners across firm boundaries and the network . . ."[28] The development of a common culture to give meaning and purpose to the cooperation can therefore provide an important support for guiding and sustaining the cooperative effort.

In principle, cultural control is also compatible with industrial democracy and the equalization of power within organizations. Indeed, this is probably the only way to guarantee that cultural control rests upon a true consensus rather than one imposed by senior management. Given that any organized activity requires control, participation can become a means of organizational control based on legitimacy. In the vision of new organization, a widely accepted organizational culture would establish the values to guide more specific goals and targets by which the progress of the collective activity could be monitored. This approach is consistent with self-managing units or teams that accept responsibility for meeting agreed targets and completing collectively endorsed projects. If underwritten in this way by genuine legitimacy, the combination of cultural and output control strategies can reconcile the underlying need for managing with employees' desires to have more participation and self-fulfillment.

Conventional and newer approaches to control

The strategies of control differ in their compatibility with conventional and newer approaches to organization. Three strategies of control broadly speaking correspond to conventional modes of organization, while the others are more consistent with new organizational forms. As Chapter 3 described, control in conventional and traditional organization tends to be heavily reliant either on personal supervision and centralized decision making, or on the application of rules and norms of conduct. Electronic surveillance is also consistent with these conventional approaches to control, even though it employs a highly contemporary technology.

The other three control strategies are, by contrast, emphasized more heavily in newer approaches to organization that endeavor to foster devolved initiative in order to encourage innovation and a flexible response to change. Devolved initiative is much better managed through the monitoring of how well people achieve agreed goals than either direct supervision or the laying down of rules. The newer organizational philosophy also stresses the value of human capital and the appropriateness of managing knowledgeable employees through the fostering of their potential and commitment. This is consistent with an HRM approach to control. The development of identification with a corporate culture and the management goals it articulates is highly compatible with the new organizational philosophy, so long as it does not become over-manipulative.

Control Strategies and Relevant Contingencies

The choice between organizational forms has to be made with contingencies in mind; such as how affected a company is by competition and change, and the kind of people it employs. This applies equally to the question of control. For example, should several strategies be applied in combination? Should different strategies be applied to different areas of activity or types of personnel?

The case of Hap Clonninger described in Box 6.4 illustrates the dilemma of whether to vary control according to the type of employee. The monitoring function of the monthly report was clearly not appropriate for a high-performing salesman like Clonninger – it took time away from doing his job and the discovery that nobody was reading his reports became seriously demotivating. In any case, the company could readily assess salesman performance by the new business each one signed up. As Clonninger himself admits, however, the monthly monitoring could be helpful in the case of new and inexperienced salespeople. It could be allied to HRM procedures that offered mentoring and training for less experienced staff. Should the company therefore only require reports from certain categories of salespeople? It could do this, so long as it made the criteria for determining who had to complete the report very clear – for example, lack of experience, newness of tenure, or even level of performance. Otherwise, a differential application of the control could easily be interpreted as arbitrary behavior on management's part.

Table 6.1 summarizes the implications for choice of control strategy presented by different contingencies. The first is the *competitive strategy* that a firm is pursuing.[29] If it is aiming to secure an advantage over competitors based on lower cost, it necessarily has to rely heavily on tight cost control and incentives for achieving quantitative targets. Tight cost control can be

Table 6.1 Strategies of control and related contingencies

Contingent factors	When	Control strategies likely to be appropriate (/ = and/or)
1. Competitive strategy	Cost leadership	Bureaucratic/electronic surveillance (ES)/output
	Differentiation	HRM/cultural/output (qualitative)
2. Extent of diversification	High	Output/HRM/cultural
	Low	Personal centralized (PC)/ bureaucratic
3. Environmental variability: unpredictability of activities and need for flexibility	High	PC (small organizations)/HRM/ cultural
	Low	Bureaucratic
4. Task characteristics: outputs	Measurable	Bureaucratic/output/ES
	Not measurable	PC/HRM/output
5. Task characteristics: knowledge of transformation processes	Good	PC/bureaucratic
	Limited	Output/HRM/cultural
6. Importance of achieving innovation	High	Output/HRM/cultural
	Low	PC/bureaucratic/ES
7. Employee expertise and skill	High	Output/HRM/cultural
	Low	PC/bureaucratic/ES
8. Position of employees in labor market	Strong	Output/cultural
	Weak	PC/bureaucratic/ES
9. Size of the organization	Small	PC
	Large	Other types

assisted by various bureaucratic control procedures. These include the requirement of prior managerial approval for items of expenditure, the specification of economical working methods aimed at waste reduction, and the formalization of conditions for other expenditure such as the class of air and rail travel permitted. Electronic surveillance can also help to reduce the cost of services provided by recording in detail items such as the time taken to complete a transaction and the added value achieved. Output control, where it is feasible, can also keep down the cost of each activity or transaction by specifying appropriate targets that are then monitored at regular intervals.

A contrasting strategy is for a firm to achieve an advantage over competitors based on securing a price premium for a superior, or even unique, product. Michael Porter has called this a "differentiation" strategy.[30] Differentiation requires an ability to adapt to different customer requirements, if not the ability to innovate products and services. This in turns needs strong, cross-functional coordination, creativity, and an emphasis on qualitative targets. If quality can be measured, then suitable output controls can be used to monitor it. A differentiation strategy can be supported across the organization as a whole through the use of HRM processes to recruit, develop, and motivate high quality and creative people, and by a corporate culture that stresses the importance of creativity, customer orientation, quality, and other desired features.

The *extent of diversification* is a second contingency that carries implications for the choice of control strategy. If geographical diversification is extensive, it becomes more difficult to rely on personal centralized control, even with the use of communication technologies such as videoconferencing. If a firm's product or service lines are highly diversified, the use of personal control from the top of the organization is constrained by limitations of knowledge about the details of the different operations and their markets. It may also be problematic to adapt bureaucratic controls to the variety of regional, technological, and/or market circumstances that characterize a diversified firm. Diversification therefore obliges a firm to consider the use of output controls, supported by HRM and cultural controls, to encourage whatever level of consistency is desired across diversified units.

Environmental variability means that the conditions under which a firm operates, and the activities it has to carry out, are characterized by significant uncertainty. High variability puts a premium on organizational flexibility. Bureaucratic controls tend to be too rigid to permit such flexibility. Great reliance has to be placed on personal centralized control, if the firm is small, or otherwise a combination of HRM and cultural controls. If performance measures can be devised that allow for a flexible response to unanticipated demands and other external developments, it may be possible to use electronic surveillance and output controls. It is, however, unlikely that these approaches will be sufficiently adaptable to meet all cases of environmental variability. Low environmental variability makes it more feasible to employ bureaucratic control, assuming that other circumstances are favorable to that approach.

Two aspects of *the tasks to be done* in an organization are particularly relevant to the choice of control strategy. These are, first, whether the tasks are *measurable* and whether there is good *knowledge of the transformation processes* involved – i.e., how to carry them out. The performance of tasks that have readily measurable parameters can be monitored by bureaucratic controls, when methods can be measured, and output or electronic controls when outputs can be measured. Tasks that are difficult or impossible to measure require personal supervision or the arm's length support of HRM and cultural strategies. Tasks normally involve the transformation of physical materials or information. If the processes used in such transformations are well known, so that best practice can be specified, personal or bureaucratic control can be used. The choice between them depends on factors such as the size of the firm and its constituent work units, and the attitude of employees towards personal rather than impersonal monitoring. On the other hand, when transformation processes are poorly known, so that they have to be worked out by the employees directly involved, management cannot specify the methods to be used and other control strategies therefore become more appropriate: output, HRM, and cultural.

Two further contingencies are likely to be associated with a limited knowledge of transformation processes. These are *innovation* and high levels of *employee expertise and skill*. It is becoming more important across virtually every sector to compete on the basis of innovation in products and services. Innovation by definition involves working on new tasks with new parameters and conditions, so that the transformation processes involved have to be discovered or worked out as the innovation proceeds. The employees working on innovation and new developments require high levels of relevant expertise and skill. By contrast, purely routine work involves little or no innovation and lower level skills. The tasks comprising the work and the jobs of the people concerned have well-understood transformation processes. Therefore, control strategies suited to both innovation and highly skilled employees are output, HRM, and cultural, whereas personal centralized control and bureaucratic and electronic surveillance are more suited to routine work and lower skilled employees. While electronic surveillance is not well suited to the control of innovative activities, it is sufficiently flexible to be applied to assessing skilled as well as routine operators, including some aspects of their behavior. For example, some call center work requires high levels of skill in handling interpersonal communications, which can be monitored electronically through listening remotely to a sample of calls.

The *position of employees in the labor market* can impact upon the effectiveness of different control strategies. Some categories of personnel, and indeed some individuals, hold a strong labor market position – they can readily quit their job for another one if they do not like the way they are being controlled. Such people are normally the outstanding performers who possess certified skills and/or have an exemplary track record. Hap Clonninger precisely fits this category; Box 6.4 above illustrates his frustration with a formalized bureaucratic control procedure that wastes his time and, worse still, is not being followed through in his case because it is actually unnecessary to do so. Employees enjoying a strong labor market position are therefore likely to respond better to output and cultural controls, especially if they are tied to a reward policy of good performance through incentives and public recognition within the firm through awards and other symbols. By contrast, the use of personal centralized or bureaucratic controls and electronic surveillance are likely to be tolerated by employees with a weaker labor market position, even though they may not necessarily like them.

Last, but not least, there is the factor of *organizational size*. In many instances, Table 6.1 lists personal centralized control against the same contingencies as bureaucratic control. Both control strategies are attuned to cost control, low levels of diversification, low environmental variability, limited need for innovation, low employee skills, and a weak position of employees in the labor market. It is primarily the size of the organization that will dictate which of these two forms of control to adopt, though other factors such as the personal charisma and drive of the chief executive are also significant. The example given in Box 6.1 illustrated how as an organization grows, it becomes increasingly difficult to rely on personal centralized control even with the assistance of modern communication technologies, and the balance of advantage therefore tips toward the bureaucratic approach. Other, less direct control strategies – output, electronic surveillance, HRM, and cultural – are not so constrained by the size factor, though it becomes increasingly difficult to sustain a common corporate culture the larger and more diversified a firm is.

To summarize: the choice of control strategy has to be made with reference to the type of activities undertaken by the organization, the qualities of the people it employs (including their scarcity), and a range of factors in its context. This is a highly complex area for managers to decide on, and one that is still poorly informed by research. While Table 6.1 draws attention to the main contingencies bearing upon the choice of control strategies, it does not address the full complexity of the decisions to be made. These decisions are made more complicated by the presence of multiple contingencies and different conditions within the same firm. As Chapter 12 will indicate, many large MNCs, diversified by function, product, and region, face this high level of internal complexity, and as a result they find it appropriate to employ a range of control strategies within the same company.

SUMMARY

1 Control is a core process within organizations, yet it has been accorded relatively little attention.
2 It is often linked to the exercise of managerial power, though other groups may also attempt to control what goes on within an organization and how it is done.
3 Further ambiguity surrounds the concept of control, because it is used to denote processes that range from the exercise of power and influence in a broad sense to very specific and focused control systems.
4 It is therefore helpful to unpack the notion of control and bring to light its different aspects. One distinction is between strategic and operational levels of control. Other aspects concern the extent and focus of control, and the characteristics of control mechanisms.
5 Basic distinctions such as these help us to identify the options for control. These options can be classified into six strategies of control, some of which are consistent with conventional forms of organization while others fit more readily with newer forms.
6 Contingent factors are relevant for the choice between different control strategies. They include a firm's competitive strategy, the extent to which it is diversified, the nature of its environment, the tasks it is carrying out, the quality of its employees, and its overall size.
7 Control is considered further in two later chapters that deal with specific, contemporary applications. Chapter 12 includes a discussion of control within multinational corporations and how the maintenance of control can present a problem for small and medium-sized enterprises that are expanding abroad. Chapter 16 relates control to the question of accountability in corporate governance.

Questions for Discussion

6.1 Discuss the different meanings attached to the concept of control and their relevance for organizing.
6.2 What are the key features of control in organizations?
6.3 What is the significance of distinguishing between strategic and operational control?
6.4 Describe the main strategies of control in organization. What are the main advantages and disadvantages of each?
6.5 What considerations would be relevant to choosing between different strategies of control or combining several of them?
6.6 How does each control strategy fit with (1) conventional and (2) new forms of organization?
6.7 Would you expect different strategies of control to be prevalent in different parts of the world? Explain the reasons for your answer.

NOTES

1 The principal exception was the work of some behavioral accountants who continued to focus on control. See for example, Anthony J. Berry, Jane Broadbent, and David Otley (2005), *Management Control: Theories, Issues and Performance*, 2nd edition, Basingstoke, UK, Palgrave Macmillan. Another notable exception to the neglect of control was Paul Thompson and David McHugh (2002), *Work Organizations*, 3rd edition, Basingstoke, UK, Palgrave, who aimed to write "a critical alternative to the standard, often American, texts." The neglect of organizational control has recently begun to be rectified, especially with the publication of Sim B. Sitkin, Laura B. Cardinal, and Katinka M. Bijlsma (eds.) (2010), *Organizational Control*, Cambridge, Cambridge University Press.

2 Cambridge University Press. *Cambridge Dictionaries Online*. http://dictionary.cambridge.org

3 William Ocasio and Franz Wohlgezogen (2010), Attention and control. In Sim B. Sitkin, Laura B. Cardinal, and Katinka M. Bijlsma (eds.), *Organizational Control*, Cambridge, Cambridge University Press, pp. 191–221.

4 These possibilities are discussed by Albert O. Hirschman (1972), *Exit, Voice and Loyalty: Responses to Decline in Firms, Organizations and States*, Cambridge, MA, Harvard University Press.

5 J.R.P. French, Jr. and B. Raven (1960) offer a classic analysis of the foundations for power and control in organizations in their essay, The bases of social power, In D. Cartwright and A. Zander (eds.), *Group Dynamics: Research and Theory*, 2nd edition, New York, Harper & Row, pp. 607–623.

6 These dimensions are derived from J. Michael Geringer and Louis Hébert (1989), Control and performance of international joint ventures, *Journal of International Business Studies*, 20, 235–254.

7 The quotation is from Ken Ohmae (1993), The global logic of strategic alliances. In Joel Bleeke and David Ernst (eds.), *Collaborating to Compete*, New York, Wiley, p. 42.

8 For examples of varying focuses of control within MNCs, see John Child and Sally Heavens (1999), Managing corporate networks from America to China, *Asia Pacific Business Review*, 5, 147–180.

9 For example, John Child and Yanni Yan (2003), Predicting the performance of international joint ventures, *Journal of Management Studies*, 40, 283–320; Arran Caza (2012), Typology of the eight domains of discretion in organizations, *Journal of Management Studies*, 49, 144–177.

10 A corporate culture is the pattern of shared beliefs and values that shapes the meaning of an organization for its members and provides them with norms of behavior and performance. When management articulates a corporate culture, it is attempting to shape a way of thinking that pervades an organization with the intention of increasing the identification of employees with, and their commitment to, its goals.

11 Charles L. McMillan (1996), *The Japanese Industrial System*, 3rd edition, New York, De Gruyter.

12 A short review is provided by Jay A. Conger (2000), Motivate performance through empowerment, in Edwin A. Locke (ed.), *Handbook of Principles of Organizational Behavior*, Oxford, Blackwell, pp. 137–149.

13 Chris P. Long (2010), Control to cooperation: Examining the role of managerial authority in portfolios of managerial actions. In Sim B. Sitkin, Laura B. Cardinal, and Katinka M. Bijlsma (eds.), *Organizational Control*, Cambridge, Cambridge University Press, pp. 365–395.

14 Some authorities distinguish this as a separate control strategy. For example, Richard Edwards (1979), *Contested Terrain: The Transformation of the Workplace in the Twentieth Century*, New York, Basis Books.

15 For an example see George Callaghan and Paul Thompson (2002), 'We recruit attitude': The selection and shaping of routine call centre labour, *Journal of Management Studies*, 39, 233–254.

16 The distinction between behavior and output control was first made by William G. Ouchi (1977), The relationship between organizational structure and organizational control, *Administrative Science Quarterly*, 22, 95–113.

17 Paul D. Kimmel, Jerry J. Weygandt and Donald E. Kieso (2009), *Accounting: Tools For Business Decision Making*, 3rd edition, Hoboken, NJ, Wiley, Chapter 21.

18 Jeffrey Pfeffer (1997), *New Directions for Organizational Theory: Problems and Practices*, New York, Oxford University Press, p. 114.
19 Extract from "2007 Electronic Monitoring & Surveillance Survey" press release (http://press.amanet.org/press-releases/177/2007-electronic-monitoring-surveillance-survey/). Reproduced with permission of American Management Association International.
20 Alex Hudson (2011), Are call centres the factories of the 21st century? March 11, London: BBC. http://www.bbc.co.uk/news/magazine-12691704. Accessed 03-12-2013.
21 George Callaghan and Paul Thompson (2002), op. cit.
22 Stephen Deery, Roderick Iverson, and Janet Walsh (2002), Work relationships in telephone call centers: understanding emotional exhaustion and employee withdrawal, *Journal of Management Studies*, 39, 471–496.
23 George Callaghan and Paul Thompson (2002), op. cit.
24 Mats Alvesson and Hugh Willmott (2002). Identity regulation as organizational control: Producing the appropriate individual, *Journal of Management Studies*, 39, 619–644. Elizabeth George and Cuili Qian (2010), Organizational identity and control: can the two go together? In Sim B. Sitkin, Laura B. Cardinal, and Katinka M. Bijlsma (eds.) (2010), *Organizational Control*, Cambridge, Cambridge University Press, 167–190.
25 Paul Thompson and David McHugh (2002), op. cit., p. 203.
26 Wayne F. Cascio (2002), *Responsible Restructuring*, San Francisco, Berrett-Koehler.
27 Paul Thompson and David McHugh (2002), op. cit., p. 204.
28 John Hagel III, John Selly Brown, and Mariann Jelinek (2010), Relational networks, strategic advantage: collaborative control is fundamental. In Sim B. Sitkin, Laura B. Cardinal, and Katinka M. Bijlsma (eds.), *Organizational Control*, Cambridge, Cambridge University Press, 251–300.
29 Michael E. Porter (1985), *Competitive Advantage*, New York, Free Press.
30 Idem.