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B Y

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CLLALB001

Submitted to the Department of Accounting at the University of Cape Town

In Partial Fulfilment of the Degree of Master of Commerce (Financial Management)
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Declaration

I declare that this dissertation is my own original work and that no part of it has been submitted to any other institute of learning in support of an application for another award. The opinions expressed in the dissertation are put forward in a personal capacity and do not represent those of the University of Cape Town or any organisation with which the author may be associated.
Abstract

This study considers the completeness of Ferreira and Otley’s (2009) evaluative framework, designed to identify the performance management and management control issues in organisations. There is growing criticism in the literature that Ferreira and Otley’s (2009) framework is essentially technocratic in nature, ignores socio-ideological controls such as organisational culture and clans, and needs to be combined with a social science perspective. Consequently, this study reviews the literature pertaining to certain socio-ideological controls, using a multi-disciplinary approach which focuses particularly on the social sciences. Combining insights obtained from the literature, the study then applies Ferreira and Otley’s (2009) framework in an empirical case study setting, assessing the extent to which the framework can identify the performance management and control issues in a small South African knowledge-intensive company. Findings from the study suggest that Ferreira and Otley’s (2009) framework is indeed deficient in that it is not able to identify cultural controls, clan controls and personnel controls. The possible implications of the cultural paradigm for control system design, contingency theory, and the general management control framework are also discussed.
Chapter 1

Introduction

1.1 Background to the Study

It has long been recognised in the literature that the management controls and management control systems employed by an organisation do not operate in isolation, but function instead as a package of controls (Otley, 1980). However, despite regular calls over the years to study the phenomenon (Otley, 1980; Dent, 1990; Fisher, 1998) there has been little theoretical or empirical research on the topic (Berry et al, 2009).

The need to study management control systems as a package is important for a number of reasons. In the first instance, considering management controls as a package would address concerns that much of the strategic management control system research has been fragmentary, and based on specific elements of control systems (Chenhall, 2003). Secondly, there has also been a tendency in the literature to focus on accounting controls, with very few studies addressing social control, clan control, culture and context (Langfield-Smith, 2007). This research approach is problematical, as studying specific elements of management control systems in isolation from other organisational controls could result in the serious under-specification of control models (Chenhall, 2003, p. 131).

The third, and possibly most important reason why management control systems should be examined as a package, is to consider the effect of such packages on performance management. Performance management is a topic with which management accounting has increasingly concerned itself in the last two decades, as it moved away from its traditional emphasis on financially oriented decision analysis and budgetary control (Ittner and Larcker, 2001, p.350).

Understanding the functioning of management control systems as a package may therefore help to develop theory which addresses the range of controls required to drive organisational performance (Malmi and Brown, 2008; Bedford, 2006). This point has also been made by Otley (2001), who has expressed the opinion that, if management accounting research is to retain its relevance, researchers in the field should move beyond the measurement of performance and focus instead on the management of performance.
Otley (2001) justifies this claim by pointing out that measuring and managing organisational performance has been the focus of many of the ‘new’ value adding techniques of management accounting, such as Activity Based Costing, the Balanced Scorecard, and EVA™. A number of these techniques have been incorporated in various management control systems. However, there is still not a clear understanding of how these techniques can be integrated with other controls so as to optimise organizational performance (Otley, 2001; Malmi and Brown, 2008).

A small group of management control researchers has, since the early 1990s, begun to address the issue of performance management. This has led to the development of a handful of integrated performance management systems or frameworks (Berry et al, 2009).

1.2 Overview of Performance Management Systems/Frameworks

The management accounting literature recognises three models of integrated performance management systems. These are strategic performance management systems such as Kaplan and Norton’s balanced scorecard; Simons’ levers of control model; and Ferreira and Otley’s performance management and control framework (Berry et al, 2009; Scapens, 2009).

This study focuses on Ferreira and Otley’s (2009) framework, which was developed not as a practical strategy management system, but as an evaluative mechanism whereby the controls and Management control systems employed by an organisation to manage and control its performance can be identified. It is arguably the most comprehensive evaluative framework of the three models identified above, for the following reasons:

- Ferreira and Otley’s (2009) framework was based on Otley’s original (1999) framework, which has since been revised and expanded in both 2005 and 2009. Also, whereas the balanced scorecard was developed as a practical strategic management system (e.g. Kaplan and Norton, 1996), only Simons’ (1995) and Ferreira and Otley’s (2009) frameworks were specifically designed to evaluate other performance management systems (Otley, 2003; Ferreira and Otley, 2009).

- Ferreira and Otley’s (2009) framework is the most recent of the three performance management system models mentioned, and as the balanced scorecard was critically evaluated (and found wanting in certain respects) by the application of Otley’s original framework (Otley, 1999), it can be assumed that Ferreira and Otley’s expanded 2009 framework is a more comprehensive and superior evaluative
framework than the balanced scorecard (which in any event was not designed for this purpose (e.g. Kaplan and Norton, 1996)).

- All aspects of Simons’ (1995) Levers of Control framework were considered in the design of Ferreira and Otley’s expanded (2009) framework, and two levers were specifically incorporated into the design of Ferreira and Otley’s (2009) expanded framework (Ferreira and Otley, 2009). As a result Ferreira and Otley’s (2009) framework may (preliminarily) be assumed to incorporate, or even build on, the best features of Simons’ (1995) levers of control framework.

- It has been proposed that Ferreira and Otley’s (2009) framework is likely to have an important impact on thinking and research in the area of performance management and control (Scapens, 2009).

It therefore seems justifiable that, if management accounting research is to follow Otley’s advice to extend its boundaries and concern itself once again with the issues involved in designing and operating systems to manage performance (Otley, 2001, p. 243), such research could at this point usefully direct itself at examining the completeness of arguably the leading and most comprehensive of the current evaluative frameworks, i.e. Ferreira and Otley’s (2009) framework.

An examination of the recent management control literature supports the view that a critical evaluation of Ferreira and Otley’s (2009) framework might be appropriate. Certain writers have suggested that this framework is deficient to the extent that it relies too much on systems-based design, and largely ignores socio-ideological controls such as personnel controls, clan controls and cultural controls (Malmi and Brown, 2008; Collier, 2005).

This criticism reflects an increased emphasis on socio-ideological controls in the literature, with numerous researchers proposing that management control systems should move beyond a largely systems-based approach to embrace social forms of control as well (Canonico and Söderlund, 2010; Malmi and Brown, 2008; Sandelin, 2008; Bedford, 2006; Collier, 2005; Nixon and Burns, 2005; Broadbent and Laughlin, 2009). Hopwood (2008) provides further support for this line of thinking, pointing to “...the need for an integration of design and social science perspectives, the likes of which we have as yet hardly seen” (Hopwood, 2008, p. 8).
Some writers have even suggested that the current management control framework may no longer be valid in the 21st century business environment, where intellectual capital and knowledge management are becoming increasingly important (Otley, 1999; Nixon and Burns, 2005). Others have commented on the increased empirical evidence of social forms of control in recently published research. They suggest that the management control literature has either over-emphasised the influence of diagnostic and interactive controls relative to informal, social controls, or that social controls are becoming more important in the 21st century (Nixon and Burns, 2005).

Ferreira and Otley (2009) did consider certain socio-ideological controls for inclusion in their framework. For example, they acknowledge that organisational culture is an important contextual variable that pervades the entire control system (Ferreira and Otley, 2009, p. 268). However, culture was not included in the framework as it was considered to be a contingent variable that might influence performance management system design, rather than an organisational characteristic that can be manipulated (Ferreira and Otley, 2009). Despite this omission, it was conceded that some aspects of culture could well be influenced by management actions, and that it might be appropriate to include culture in this sense in a wider performance management system framework (Ferreira and Otley, 2009).

It is therefore considered to be of some importance, given the increasing focus on socio-ideological controls in the management accounting literature, and the perceived shortcomings of Ferreira and Otley’s (2009) framework in this regard, to examine the possibility that socio-ideological controls should be included in Ferreira and Otley’s (2009) evaluative framework.

In doing so, and in line with suggestions from the literature, it is also considered appropriate that the nature of socio-ideological controls be examined from a social science perspective (Hopwood, 2008). A broader, multi-disciplinary approach will also be taken where relevant, to allow for a more comprehensive understanding of the inter-relationship between performance management and other related disciplines, such as organisational behaviour and psychology (Hopwood, 2008; Nixon and Burns, 2005).

1.3 Aim of the Study

The aim of this study is to investigate whether socio-ideological controls, such as organisational culture, clan controls, and personnel controls should be included in Ferreira
and Otley’s (2009) performance management system template, designed to identify the major control and performance management issues within an organisation.

As recommended by several authors (Otley, 2003; Hopwood, 2008; Nixon and Burns, 2005) the study adopts a multi-disciplinary approach, drawing upon literature from the social, management, and behavioural sciences as well as from the field of management accounting.

As this issue has been examined only to a limited extent in the management control literature, this study is regarded as being exploratory in nature.

1.4 Research Question

This study sets out to answer the following question:

“Should Ferreira and Otley’s (2009) performance management framework be expanded to include socio-ideological controls as an aspect of management control and performance management?”

1.5 Objectives of the Study

This study has the following objectives:

- To identify and assess, with reference to the relevant literature, those socio-ideological controls which can make a positive contribution to management control and performance management in organisations.

- To evaluate the technocratic and socio-ideological management controls employed by a small South African consulting firm, using Ferreira and Otley’s (2009) performance management framework and the insights into socio-ideological control obtained from the literature review.

- To re-assess the robustness and adequacy of Ferreira and Otley’s (2009) framework, based on the results of the above two objectives.

1.6 Research Method and Structure of the Study

This thesis employs a single case study approach. The case study approach is the method advocated by Yin (1994) for the gathering of phenomenological evidence. This approach is supported in the academic literature by, among others, Otley (2003) and Ittner and Larcker.
(2001), who also endorse the use of data from a single or small number of organisations as the most appropriate means of obtaining the quantity and level of data required to answer many managerial accounting research questions. More specifically, Ferreira and Otley (2009) suggest that empirical evidence, especially from case study research, is required to assess the robustness and validate the adequacy of their (2009) evaluative framework.

The rest of this study is organized as follows: In Chapter 2 the recent and relevant literature on the relationship between socio-ideological control, management control, and performance management is reviewed. Chapter 3 sets out and justifies the research methodology which has been applied. In Chapter 4 the case study data is presented and analysed. Conclusions are presented in Chapter 5, and suggestions for further research are provided.
Chapter 2

Literature Review

2.1 Overview

This chapter presents a review, interpretation and synthesis of the relevant research relating to socio-ideological control in general, and its relationship to management control and performance management in particular. In the first instance, the terms ‘management control’ and ‘performance management’ will be discussed, whereafter the nature of socio-ideological control will be explored.

The various socio-ideological controls to be included in the study will then be identified, and the literature relating to each of these controls will be examined, interpreted, and summarised. The potential of these controls to contribute to management control and/or performance management systems will then be evaluated. This in turn will facilitate the evaluation of the socio-ideological controls employed by the case study company, as stated in Objective 2 of the study.

2.2 Management Control, Performance Management, and Socio-Ideological Controls

Although Ferreira and Otley (2009) refer to their evaluative framework as a performance management framework, it is intended to identify both management control and performance management issues in organisations (Ferreira and Otley, 2009). For purposes of analysis, therefore, the terms ‘management control’ and ‘performance management’ will be used separately in this study.

Although management control has been defined in various ways, it is generally agreed that it involves the exercise of power or influence in order to mobilise and coordinate individual and collective action towards given objectives (Langfield-Smith, 1997; Speklé, 2001). More recently, these given objectives have been interpreted as being those derived from an organisation’s strategic planning process, so that the purpose of management control is widely acknowledged to be the implementation of a chosen strategy (Nixon and Burns, 2005; Anthony and Govindarajan, 2007; Merchant and Van der Stede, 2007).

Performance management, on the other hand, goes beyond the implementation of strategy to address the management of strategy as well. This is achieved by incorporating into the strategy implementation process further procedures which facilitate organisational learning
and adaptation. This allows organisations to continually evaluate the effectiveness of their existing strategies, to consider new strategic opportunities, and to fine-tune and change their strategies as necessary (Kaplan and Norton, 2001).

To understand the specific nature of socio-ideological controls, one needs first to consider the various ways in which management control functions. Management control exerts its influence by focusing on worker behaviour, output, and/or the minds of employees (Alvesson and Kärreman, 2004). These various elements of control have been described or labelled in different ways by different writers, many of whom have also provided different bases of distinguishing one from the other (Chenhall, 2003).

Controls intended to exert a direct influence on output and behaviour have been labelled, for example, as mechanistic (Chenhall, 2003), formal (Collier, 2005), and technocratic (Alvesson and Kärreman, 2004). On the other hand, those controls expected to exert an indirect influence on behaviour by targeting minds through norms, emotions, and shared beliefs and values, have been variously referred to as normative (Kunda, 1992), concertive (Barker, 1993), social (Merchant, 1985b), informal (Collier, 2005), organic (Chenhall, 2003), and socio-ideological (Alvesson and Kärreman, 2004).

This study will adopt the labels suggested by Alvesson and Kärreman (2004). Accordingly, those controls which attempt to influence employee mindsets will be referred to as socio-ideological controls, whereas those intended to control employee behaviour directly will be known as technocratic controls.

Chenhall (2003) has suggested that a variety of control taxonomies are possible, and are a useful means of addressing concerns of how management control systems relate to broader control systems. The various taxonomies can also guide research into how particular aspects of management control systems are consistent with the control ‘culture’ of an organisation (Chenhall, 2003, p. 132).

This study will employ the control taxonomy of Malmi and Brown (2008), who identified two broad categories of socio-ideological controls based on an analysis of nearly four decades of management control system research. By adopting this approach, this study will look to build on an established foundation of management control system research. The socio-ideological controls identified by Malmi and Brown (2008) were cultural control (comprising symbols, values, and clan control), and personnel controls.
This investigation will help to address the dearth of research conducted in the area of socio-ideological control. For example, Malmi and Brown (2008) state that the socio-ideological controls mentioned in the above paragraph have received little attention in empirical management control system research. In similar vein Berry et al (2009), in a review of the recent management control systems literature, note that few studies of culture and control have been conducted. Langfield-Smith (1997, 2007) came to a similar conclusion when reviewing the literature on strategic performance management, finding that management control systems generally adopted too narrow a focus, emphasising formal financial controls and omitting social control, clan control, culture and context.

2.3 Personnel Controls

Personnel controls are sometimes referred to as personnel/cultural controls (Merchant and Van Der Stede, 2007). Because personnel controls facilitate cultural control in a number of ways these controls will be reviewed first, so that the interplay between personnel controls and cultural control can be better appreciated in the subsequent review and discussion of cultural controls.

Merchant and Van Der Stede (2007) note that personnel controls build on employees’ natural tendencies to control and/or motivate themselves. They describe personnel controls as those controls which serve any of three basic purposes: to clarify the organisation’s expectations, to help ensure that each employee has all the capabilities and resources necessary to do a good job, and (in respect of some personnel controls) to increase the likelihood that each employee will engage in self-monitoring.

Merchant and Van Der Stede (2007, p. 83) explain that self-monitoring is the naturally-present force that pushes most employees to want to do a good job, and be committed to the organisation’s goals. They point out that the phenomena underlying self-monitoring have been discussed in the management literature under various labels, including self-control, intrinsic motivation, ethics and morality, trust, and loyalty.

The main methods employed to implement personnel controls are (1) the selection and placement of employees, (2) training, and (3) job design and the provision of necessary resources (Merchant and Van Der Stede, 2007, p. 83).

Snell (1992, p. 297) defines a personnel control as one that regulates the antecedent conditions of performance, explaining that these include the knowledge, skills, abilities,
values and motives of employees. Merchant (1982) maintains that these controls are often centred on human resource policies that help ensure that personnel will perform at a high level and in congruence with firm goals.

Examples of personnel control drawn from the literature will be introduced where appropriate in the subsequent sections of this chapter. This will serve to illustrate the relationship between personnel controls and certain aspects of cultural control.

2.4 Organisational Culture

Before undertaking a detailed review of the literature, the concept of culture will first be discussed and defined, and developments in scholarly views of culture will be presented. These will essentially be the views of social scientists and writers on organisational management. Unless otherwise indicated, all references to ‘culture’ in this study will relate to organisational culture.

Just as management accounting researchers have differed in their understanding of management control and management control systems (Chenhall, 2003), it appears that social scientists have similarly failed to arrive at a consensus definition of culture (Hughes, 2010). Certain commonalities in definitions of culture have emerged though, as identified by Alvesson and Sveningsson (2008) in a review of thirty years of organisational culture studies. These related to the existence of shared meanings, interpretations, values and norms.

This study adopts the definition of culture proposed by Schein (2004, p. 17), who describes organisational culture as “a pattern of shared basic assumptions that was learned by a group as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems.”

Various social science writers have identified different levels at which culture manifests itself. In a survey of the literature, Hofstede et al (1990) found four such levels, arranged from ‘shallow’ to ‘deep.’ These were symbols, heroes, rituals and values.

Other writers use different terms and groupings for the above-mentioned cultural manifestations, but the overall effect is much the same. For instance, Schein (2004) states that culture can be analysed at several different levels, ranging from tangible, overt manifestations to deeply imbedded, unconscious, basic assumptions which constitute the
essence of culture. Schein (2004) refers to the tangible overt manifestations of culture as ‘artefacts’ (thereby including Hofstede et al.’s (1990) symbols, heroes and rituals), while values are acknowledged to be the deeply imbedded, unconscious, basic assumptions which constitute the essence of culture.

Conceptually, Schein’s (2004) view of the components of culture conforms in most aspects to that of Malmi and Brown (2008) as discussed earlier. However, where Malmi and Brown (2008) refer only to symbols, Schein (2004) uses the term ‘artefacts’ to include not only symbols, but other visible expressions of culture as well. This study will consequently examine Schein’s more inclusive concept of artefacts, so as to ensure that symbols and all other overt manifestations of culture are considered (Schein, 2004).

The other difference between Schein’s (2004) and Malmi and Brown’s (2008) conceptualisation of culture relates to clans, which the latter researchers consider to be a separate form of cultural control and which Schein (2004) regards as a cultural typology. (Various universal typologies have been proposed that are presumed to help us understand all organisations [Schein, 2004]).

Schein (2004) sees the clan as being representative of a typology of corporate character and culture, character being that component of culture consisting of shared vision, motivational faith that things would be fair and that abilities would be used, and distinctive skills, both overt and tacit (Schein, 2004, p. 193).

Clan culture implies a certain form of control, so that there is in effect no contradiction between the social science and the management control literatures; it is simply that Schein (2004) focuses on the cultural aspects of clans, whereas the management control literature focuses on the control aspects of clan culture (Ouchi, 1979, 1980; Wilkins and Ouchi, 1983). Schein’s (2004) classification of culture (i.e. artefacts and values) will be adopted in the literature review which follows, while clans will be reviewed as a separate form of cultural control as recognised by the management control literature (Malmi and Brown, 2008; Chenhall, 2003).

The literature relating to each of the constituent elements of culture will now be examined. Their roles in management control systems and performance management systems will also be identified.
2.4.1 Artefacts

Schein (2004, p. 25) explains that artefacts constitute the surface level of culture, and are made up of those phenomena that one sees, hears and feels when encountering a new group with an unfamiliar culture. Artefacts include the architecture of the group’s physical environment, its language, its style of clothing, its emotional displays, and the myths and stories told about the organisation. Published lists of values, organisation charts, and observable rituals and ceremonies would also be included under this classification.

Hofstede et al (1990) describe artefacts instead as symbols, heroes, and rituals. Symbols are defined as words, gestures, pictures, or objects that carry a particular meaning within a culture. Heroes are persons who possess characteristics which are highly valued in the culture, and who therefore serve as models for behaviour. These heroes can be real or imaginary, dead or alive. Rituals are collective activities that are technically unnecessary but socially essential within a culture, and which are therefore carried out for their own sake (Hofstede et al, 1990, p. 291).

Hofstede et al (1990) believe that symbols, heroes and rituals can be grouped under the term ‘practices,’ because they are visible to an observer. Their cultural meaning, however, will depend upon the way in which they are perceived by insiders.

It is apparent that Schein’s (2004) artefacts are akin to Hofstede et al’s (1990) practices, thereby including symbols, heroes, and rituals. Schein (2004) notes that different cultural observers report on different sorts of artefacts, which leads to non-comparable descriptions. However, Schein (2004) explains that the meanings of artefacts gradually become clear if the observer lives in the group long enough. He also suggests that this level of understanding can be achieved more quickly if the observer attempts to analyse the espoused values, norms and rules by which the members of the group regulate their behaviour.

Depending on the writer concerned, artefacts appear to have various functions as far as the study of or the effect on culture is concerned. Researchers such as Hofstede et al (1990), Schein (2004), and Alvesson and Sveningsson (2008) believe that artefacts can assist in the understanding of culture, although Schein (2004) warns that this level of culture is easy to observe and very difficult to decipher.

Alvesson and Sveningsson (2008, p. 39) maintain that culture can be perceived as that which is created and sustained through shared experiences via the use of shared symbols, with
symbols in this case referring to language, stories and rituals. The authors note that culture is expressed in behaviour, and can be seen in actions, events and other material aspects. However, culture does not refer to these exterior elements as such, but to the meaning and beliefs these have for people. Culture is thus behind and beneath behaviour (Alvesson and Sveningsson, 2008).

Other writers in the field have slightly different views on artefacts. For example, Johnson (1992) defines culture as per Schein’s (2004) definition on page 10 of this study, but refers to it as a ‘paradigm’ which is encircled and protected by a web of cultural artefacts (Johnson, 1992, p. 30). He identifies this web as consisting of control systems, organisational structures, power structures, as well as rituals and routines, stories and myths, and symbols. Johnson (1992) believes it would be a mistake to consider the paradigm as merely a set of beliefs removed from the organisational action; it is in fact bound to the action of organisational life by this cultural web. As a result, the cultural web can be used as a convenient framework for conducting a culture audit of an organisation.

Yet other researchers believe that cultural change can be effected or at least strongly supported by the deliberate changing of artefacts. Higgins and McAllaster (2004), writing on the subject of strategic change, use a case study of Continental Airlines to illustrate how a change of cultural artefacts supported a strategic change to become more customer focused. Johnson (1992, p. 36) also believes that a change of artefacts should support attempted paradigm change, as this signals change at the level of everyday reality for the organisation’s employees.

Malmi and Brown (2008), citing Schein (1997), suggest when promoting their ‘bundle of controls’ framework that symbol-based controls are employed by organisations as visible expressions so as to develop a particular form of culture. They also use the example of requiring staff to wear a particular uniform as a means of creating a culture of professionalism (Malmi and Brown, 2008, p. 294). However, as discussed below, this is not in accordance with the beliefs of social scientists such as Schein.

While Schein (2004) acknowledges that there is a mutual interaction between the various levels of culture, so that different cultural artefacts could influence culture at the deeper levels, he does not suggest that a change of artefacts alone would bring about a new culture. However, when trying to bring about cultural change, Schein (2004) does propose the employment of those artefacts which will help to forge new behaviours. This may be what
Malmi and Brown (2008) had in mind when suggesting that a particular uniform can create a culture of professionalism. If their statement was intended to be taken literally, however, Malmi and Brown (2008) have either overstated their case somewhat, or have taken a rather superficial view of culture.

2.4.1.1 Conclusions drawn from the Artefacts Literature

It seems that artefacts, although representing the most superficial level of culture, play an important part in the cultural mix. They represent a gateway to the deeper levels of culture, yet also act as a web which binds and strengthens the culture. Artefacts interact with the other levels of culture, both shaping and being shaped by them. They represent the most visible signs of culture (but are difficult to interpret), and should not be ignored as a signalling device when attempting cultural change, or as a means of initiating behavioural change. Artefacts are therefore able to exert an indirect control effect in three different ways; by shaping culture, by signalling cultural change, and by initiating behavioural change.

The concept of control systems as artefacts (Johnson, 1992) has possible implications for the existing management control paradigm. This will be addressed in more detail later in the literature review, when considering the interrelationship between the cultural paradigm and management control (See page 34).

2.4.2 Values

According to a survey of the literature by Hofstede et al (1990, p. 291), values form the core of culture, “in the sense of broad, nonspecific feelings of good and evil, beautiful and ugly, normal and abnormal, rational and irrational, feelings that are often unconscious and rarely discussable, that cannot be observed as such but are manifested in alternatives of behaviour.”

Whereas Hofstede et al (1990) refer simply to ‘values,’ Schein (2004) distinguishes between a group’s espoused beliefs and values (what people say, but will not necessarily do), and the group’s shared basic assumptions (what they will actually do, based on a conviction, built up over time, that such actions are the appropriate way to behave). Schein (2004) also prefers the term ‘shared basic assumptions’ when referring to the basic values which express the deepest level of culture. As he says, whereas values are open to discussion, basic assumptions are taken for granted by group members and are treated as non-negotiable.
Anyone who does not hold these basic assumptions is viewed as an outsider and is automatically excluded by members of the culture (Schein, 2004).

Espoused beliefs and values, then, are proposed by the leader but are only accepted by the group once they have been tested and found to work. Even so, espoused beliefs and values only become entrenched if they are seen by the group to work on a regular basis over a longer period of time. Only at this stage do they become shared basic assumptions. Espoused beliefs are held at a conscious level, whereas shared basic assumptions have become so entrenched that they are held unconsciously. According to Schein, shared basic assumptions are the ultimate sources of values and action and are extremely difficult to change (Schein, 2004).

Empirical research on organisational culture by Hofstede et al (1990) assessed, along with the other three levels of culture, the role of values in shaping organisational culture. Hofstede et al (1990) examined the cultures of twenty culturally homogeneous organisational units within ten companies situated in two different countries (i.e. the organisations were based in Denmark and The Netherlands, countries with similar national cultures. So, whereas employees were from the similar Nordic-Dutch cultural grouping, there were differences in the organisational cultures of the companies). The researchers employed semi-structured interviews and a questionnaire to collect information on the four manifestations of culture identified from the literature, i.e. symbols, heroes, rituals and values.

The research did not find that shared values constituted the core of an organisation’s culture, but rather that shared perceptions of employees’ daily practices lay at the heart of culture. (‘Practices’ in the context of this study was a blanket term referring to conventions, customs, habits, mores, traditions, and usages). Measurements of employee values were found to differ more according to the demographic criteria of nationality, age and education, than to membership in the organisation (Hofstede et al, 1990).

Hofstede et al (1990) note that the US management literature rarely distinguishes between the values of founders and significant leaders, and the values of the majority of the organisation’s members. In assessing the extent to which leaders’ messages come across to employees, the researchers found that the values of leaders and key leaders shape organisational culture, but that culture affects ordinary employees through shared practices (Hofstede et al, 1990).
Referring to DLM, one of the twenty case studies which formed the basis of the study, Hofstede et al (1990) observed that employees’ values did not change when a new president was appointed. However, because of the orientation of the new president, the ‘rules of the game’ were changed so that new practices could be developed. (This may perhaps be likened to Schein’s (2004) espoused values, which if accepted result in a change of behaviour, while not yet being internalised by employees as shared basic assumptions).

In studying the various organisational cultures, Hofstede et al (1990) found considerable differences in practices for people who held roughly the same values. They attribute this to the fact that values are acquired in early youth, so that a child’s mind is programmed with most of his or her basic values by the age of ten. Organisational practices, on the other hand, are learned through socialisation in the workplace, which we enter as adults with most of our values already firmly in place.

Hofstede et al (1990) note too that if values depend primarily on demographics, values enter the organisation via the hiring process: an organisation recruits people of a certain age, sex, nationality, and educational level, with certain values. Their subsequent socialisation within the company occurs as they learn the practices via the organisation’s symbols, heroes and rituals.

It should be noted that one of the weaknesses of the Hofstede et al (1990) study might be the methods by which both organisational and personal values were determined. Interviews were of two to three hours duration, and the questionnaires administered comprised of 135 questions which addressed employees’ perceptions of the four levels of culture, one of them being values.

Researchers such as Schein (2004), and Alvesson and Sveningsson (2008), point out that organisational values, or shared basic assumptions, operate at a subconscious level and are difficult to discern, sometimes taking many months for a researcher to uncover. The same problem applies to personal values, which are highly complex and deeply held, and are difficult for individuals themselves to comprehend (Griseri, 1998).

It is more likely, then, given the relatively limited timeframe employed by Hofstede et al (1990), that the organisational values referred to in their study were espoused values, and may not have reflected the more deep-seated shared basic assumptions which actually governed behaviour. Personal values identified by Hofstede et al (1990) were, similarly, more likely to have been perceived values than deeply-held beliefs.
The possibility that organisational values were espoused values rather than more deeply-held beliefs seems to be borne out by the TKB case study, where a change in market conditions led to the forced early retirement of certain older workers. The employees concerned were shocked by the company’s actions, which did not seem to accord with its values (Hofstede et al, 1990).

### 2.4.2.1 Values: More Evidence from the Workplace

The possibility that values enter the organisation via the hiring process (as suggested by Hofstede et al, 1990) has been investigated by a number of researchers. For example, Cable and Judge (1996) found that job applicants self-select into organisations based on the degree of person-organisation fit. Positive person-organisation fit was measured as the congruence between the job seekers’ perceptions of an organisation’s values, and the job seeker’s perceptions of their own values. This study also found that job seekers placing more emphasis on person-organisation fit in their job choice decisions experienced greater person-organisation fit after joining their organisations than job seekers placing less emphasis on fit.

A later study by the same researchers also found that interviewers use person-organisation fit when evaluating and hiring applicants (Cable and Judge, 1997). Results of the study showed that interviewers can assess applicant-organisational values congruence with significant levels of accuracy, and that these subjective assessments have a large effect on their hiring recommendations, and subsequently on the organisation’s hiring decisions.

Other aspects of Hofstede et al’s (1990) proposals were endorsed by Brown and Trevino (2009), who investigated the effects of charismatic leadership in a large health care organisation in the US. The researchers examined the extent to which the values of socialised charismatic leaders would be adopted by followers. (Socialised charismatic leaders were described as inspirational leaders who are altruistically motivated, and who encourage followers to embrace the leader’s internalised values [Brown and Trevino, 2009]).

It was found that occupational membership and employee demographics have more powerful effects on employee values than do socialised charismatic leadership. They suggest that any ability of such leaders to achieve goal congruence is likely to depend on the organisational context, and the pre-existing values that followers bring with them to the workplace (Brown and Trevino, 2009).
The extent to which values can be imposed by management actions was investigated by Buchko (2006), who researched the effects of implementing a values-based-management programme in a large US manufacturing company. A rigorous internal process was followed by management and staff, whereby 19 desirable organisational behaviours were identified. Managers were then evaluated by staff on the extent to which they exhibited these behaviours. It was found that subordinates of leaders who strongly demonstrated any of the identified behaviours, were more likely themselves to exhibit the same behaviours.

Research by Meglino et al (1989) identified additional benefits to the organisation when employees and their supervisors shared (or came to share) similar values. A survey of 170 workers in a large US industrial manufacturing plant revealed that, where there was congruence between supervisor and employee values, employee satisfaction and commitment was higher. It was also noted that value congruence with the employer’s supervisor appeared to be a more significant factor than congruence with the organisations’ cultural values when it came to job satisfaction and employee commitment.

The practical importance of values is emphasised by Welch (2005), who was CEO of the General Electric Corporation in the U.S. between 1981 and 2001. By 1991 the company had spent three years developing its values via a consultative process involving over five thousand employees. Some of the desired values (which Welch emphasises are essentially behaviours) were: “Act in a boundaryless fashion – always search for and apply the best ideas, regardless of their source,” and “Be intolerant of bureaucracy,” and “See change for the growth opportunity it brings” (Welch, 2005, p. 18).

Core values were printed on laminated wallet cards for easy reference by managers. More importantly, Welch insists that the company actually lived the values, rewarding those who did so and punishing those who did not. As he explains: “Every time we asked one of our high-performing managers to leave because he didn’t demonstrate the values – and we said as much publicly – the organization responded incredibly well. In annual surveys over a decade, employees would tell us that we were a company that increasingly lived its values. That made people even more committed to living them too. And as our employee satisfaction results improved, so did our financial results” (Welch, 2005, p. 21).

2.4.2.2 Conclusions Drawn from the Values Literature

At first glance some of the findings from the values literature appear contradictory. However, they can perhaps be interpreted more meaningfully if a distinction is made
between espoused values, perceived values, and shared basic assumptions. Griseri (1998) has pointed out that one’s deepest personal values are held at a subconscious level, and that people are often not aware of their own values. Perceptions of corporate and individual values as determined by questionnaires and short interviews, or during employment interviews, are therefore more likely to refer to espoused corporate values and perceived personal values, than shared basic assumptions and deepest personal values, respectively.

The pertinent findings from this section of the literature, from the point of view of management control and performance management, can be summarised as follows:

- Organisational values held at the deepest level i.e. that of Schein’s (2004) shared basic assumptions, constitute the heart of culture and are difficult to discern and change.

- It is possible to change employee behaviour by way of value-change programs driven by the leader. Although the changed behaviour may be due to the adoption of espoused values which have been tested by the group and seen to work, positive behavioural change can nevertheless be achieved in this manner. If the espoused values are seen to work on a regular basis over time, they can become entrenched as shared basic assumptions which will then form part of the group culture.

- Both espoused values and deeply held assumptions can therefore exert a control effect, and can be influenced by management actions. Ferreira and Otley’s (2009) contention that organisational culture cannot be manipulated should thus be questioned.

- F&O’s framework does consider the ability of values to influence behaviour. Although F&O do not address values in their framework questions, in their guidelines to Question 1 they state that an organisation’s vision and mission form part of its beliefs systems, and as such embody core values and core purposes.

F&O (p. 268) go on to say in their guideline that the purpose of framework Question 1 is to “elicit information on how organisational values and purposes are established and communicated as a means of influencing the behaviour of organisational participants.” F&O (p. 268) also highlight the need “to observe the impact that such processes have on the behaviour of managers at all levels”. It is submitted that F&O are referring here to espoused values, as shared basic assumptions represent the
deepest level of culture and may only be discerned after a considerable period of
time and with some effort.

F&O’s consideration of espoused values only, has certain implications for the
analysis of an organisation’s controls via the use of F&O’s framework:

(i) If espoused values are also held as shared basic assumptions, the application
of F&O’s framework will not detect the influence of the shared basic
assumptions on behaviour, and will be likely instead to attribute the control
effect to the espoused values.

(ii) Where shared basic assumptions are different from espoused values, the
control effect of the shared basic assumptions is likely to go undetected.

(iii) On the other hand, where espoused values have not been accepted by
employees and do not influence employee behaviour, the lack of any control
effect should be detected by F&O’s framework. An explanation for the lack
of any control effect would, however, not be forthcoming.

It seems, then, that an apparent lack of understanding on the part of F&O of how
values influence culture, can lead to erroneous interpretations of the effect of
espoused values on employee behaviour. This suggests that F&O’s framework
should include a thorough interrogation of not only espoused values, but shared
basic assumptions as well.

- Individuals tend to seek employment with organisations whose espoused values
  match the individuals’ perceived personal values. A good person-organisation fit
  may make such individuals more likely to exercise self-control in the pursuit of
  organisational objectives, or more likely to align themselves with group efforts to
  achieve organisational goals.

A deliberate selection process which emphasises good person-organisation fit (i.e. a
personnel control) could therefore facilitate cultural control, suggesting that
personnel controls should also be interrogated by Ferreira and Otley’s (2009)
framework.
2.5 Clan Culture and Control

The concepts of clan culture and clan control were first introduced into the social science control literature by the management writer Ouchi (1979), who set out to establish the control mechanisms by which an organisation can be managed so that it moves towards its objectives. Ouchi (1979) also sought to determine how the design of these mechanisms could be improved, as well as the limits of each design.

Ouchi’s thinking was influenced by work he had done with the parts distribution division of a major US company over a two-year period (Ouchi, 1979). However, in his 1979 paper Ouchi also embarks upon a broader philosophical discussion of management control, using findings by other social scientists (e.g. Perrow, 1972) and examples from other industries to support and illustrate his conceptual framework.

Ouchi (1979) proposes three mechanisms by which the employees of an organisation can be controlled:

- A market mechanism, which accurately measures each person’s contribution. This mechanism allows employees to pursue non-organisational goals, but at a loss of personal reward. In reality, a market mechanism can rarely be employed.

- A bureaucratic mechanism, which evaluates performance as closely as possible, and partly engenders feelings of commitment to the idea of legitimate authority in hierarchies.

- A clan mechanism, which achieves organisational goals by selecting and socialising individuals, so that their individual objectives are largely congruent with those of the organisation.

In the first instance, to explain clan control Ouchi uses the example of a foreman in the parts distribution company. As the foreman’s task is to oversee the work of the pickers and packers, it is difficult for the warehouse manager to properly evaluate the foreman’s work other than through extensive surveillance. An alternative would be for the warehouse manager to select for promotion to foreman only those workers who display a high internal commitment to the firm’s objectives. If he can then maintain in them a deep commitment to achieving the ‘right’ objectives, he can eliminate many expensive forms of auditing and surveillance (Ouchi, 1979).
Ouchi explains that organisations can rely on selection and screening only to a certain extent. To make up for the fact that they will not be able to find people who exactly fit their needs, organisations can employ training programmes to impart the desired skills and values. However, training will not result in employees’ compliance due to their internalisation of underlying objectives and values. Instead, this will occur because employees either identify with the trainer (who may be a respected superior), or with their work group or department (Ouchi, 1979).

Ouchi also uses the example of a hospital to illustrate a clan-type mechanism. He points out that health care employees undergo a highly formalised and lengthy period of socialisation, during which time they receive not only skills training, but also value training or indoctrination. By the time that doctors and nurses qualify, they are qualified not only in respect of their technical capabilities, but also with respect to their ‘integrity or purity of values’ (Ouchi, 1979, page 837).

When these socialisation processes characterise groups such as doctors or nurses who are employed in different organisations, but who hold similar values, we refer to these groups as professions. When the socialisation process encompasses all of the citizens of a political unit, it is known as a culture. And when the socialisation process refers to the properties of a unique organisation, we may refer to it as a clan. Ouchi goes on to suggest that a clan may serve as the basis of control in some organizations, as long as certain prerequisites are in place (Ouchi, 1979).

For a clan to exercise control there needs to be a deep level of common agreement between members as to what constitutes proper behaviour, as well as a high level of commitment to that behaviour. Generally speaking, a control mode which relies on selecting the appropriate people can expect high commitment as a result of internalised values. An organisation can therefore choose to be highly selective, employing only those individuals who have both the required skills and values which the organisation needs. This practice is common, for instance, in hospitals, public accounting firms, and universities (Ouchi, 1979).

Ouchi suggests that clan control may also be particularly relevant to those organisations where neither behaviour nor outputs can be easily controlled by bureaucratic or market methods. An example would be the research laboratory of a large organisation. In such cases it is almost impossible to define the rules of behaviour which, if followed, will lead to
desired scientific breakthroughs, and which in turn will result in new, marketable products. It may also take many years to evaluate the success of such products (Ouchi, 1979).

The only alternative in this case may be to select suitably qualified and committed people, and then to engage in rituals and ceremonies which serve to reward those who display the underlying attitudes and values which are likely to lead to organisational success. (In a research institution, rituals and ceremonies may include hazing new members in seminars [i.e. ragging them or giving them a testing time as a form of initiation], going to professional society meetings, and writing scientific articles for publication in academic journals) (Ouchi, 1979).

Ouchi goes on to suggest that in any organisation with high ambiguity, i.e. where means-ends relationships are not well understood, such as in the public sector, in service industries, and in fast-growing technologies, cultural or clan forms of control are likely to be more appropriate than market or bureaucratic forms of control. In simple language, if people are to engage in cooperative enterprises they must be able either to trust each other, or to closely monitor each other (Ouchi, 1979).

In an almost prescient manner, Ouchi addresses what he sees to be the long-term problem besetting the control of organisations. How, he asks, in a society that is becoming increasingly pluralistic and therefore goal-incongruent, and where economic organisations are characterised by increasing interdependence and ambiguity, may the control of organisations be achieved without recourse to unthinking bureaucratisation? (Ouchi, 1979). The answer may lie in a greater reliance on socio-ideological controls, as suggested by a growing number of researchers in recent times (Malmi and Brown, 2008; Sandelin, 2008; Collier, 2005).

Whereas Ouchi makes a strong argument for the necessity of clan controls in organisations with high ambiguity, his reasons for clan formation are less convincing. On the evidence of his 1979 paper, it appears more that Ouchi has identified a clan effect in certain organisations, but has not provided good reasons for the apparent cohesiveness of such clans.

The questions remain: Can one successfully select suitably qualified and committed employees, and if not, how successful can socialisation and training be as a means of addressing shortcomings in the selection process? Also, why do clan members continue to exercise high levels of self-control in pursuit of organisational objectives? Are rituals and
ceremonies, as suggested by Ouchi (1979), sufficient reward and motivation? Ouchi provided answers to these questions over time, developing and expanding his theory of clan formation in two later conceptual papers, Ouchi (1980), and Wilkins and Ouchi (1983).

2.5.1 Conceptual Changes to the Clan Concept: Ouchi (1980)

In his 1980 paper Ouchi introduces a number of concepts not mentioned in his seminal 1979 work to support the working of clan-type controls. Using these concepts, Ouchi (1980) offers the following argument to support the formation of clans:

- Cooperative action involves interdependence between individuals. This interdependence requires a transaction or exchange in which each individual gives something of value (e.g. labour), and in return receives something of value (e.g. money).

- Both individuals must regard the transaction as equitable – it must meet the standards of reciprocity which Gouldner (1961) has described as a universal requirement for collective life. (A norm of reciprocity is one of only two social agreements that have been found to be universal among societies across time and cultures - the other is the agreement that incest is taboo [Gouldner, 1961, as cited by Ouchi, 1980]. Reciprocity is sometimes expressed in phrases such as ‘a fair day’s wage for a fair day’s work’).

Ouchi points out that if no such norm of reciprocity existed, the costs of establishing a detailed contractual agreement to regulate the terms of exchange, and to audit the performance of the other party afterwards, would make the division of labour unthinkable and social existence impossible. He concludes, therefore, that a norm of reciprocity underlies all exchange mechanisms.

- It is the demand for equity (as described above) that gives rise to transaction costs. According to Ouchi, transaction costs present a solution to the problem of cooperation in the realm of economic activity.

- A transaction cost is defined as: “Any activity which is engaged in to satisfy each party to an exchange, that the value given and received is in accord with his or her expectations” (Ouchi, 1980, p. 130).
• Ouchi notes that equity can be difficult to determine in an environment which requires teamwork, since joint efforts produce a single outcome, and the input of each individual can be difficult to determine.

• In a clan, then, cooperative effort can be attained by effecting changes in states of mind. If the socialisation of individuals into an organisation is complete, therefore, the basis of reciprocity can be changed. For example, Japanese firms rely largely on being able to hire inexperienced workers, socialising them to accept the company’s goals as their own, and compensating them according to non-performance criteria (such as length of service, or number of dependents).

According to Ouchi it is not necessary for control purposes for Japanese organisations to measure the performance of their employees; the employees’ natural (socialised) inclination is to do what is best for the firm.

• The normative requirements for clan formation are therefore: Reciprocity, [recognition of] legitimate authority, and common values and beliefs.

The arguments advanced by Ouchi in his 1980 paper add to an understanding of the clan mechanism as introduced in his 1979 paper, but still appear to stumble at the final hurdle – the socialisation of employees to change their states of mind (i.e. their values), and thereby allow the basis of reciprocity to be changed.

According to Grisieri (1998) it is difficult to discern and change individuals’ deepest held values. What is more, Ouchi’s example of Japanese firms may not be a good one as issues of national culture come into play as well.

For example, Iyengar (2010, p.32) notes that: “Members of collectivist societies, including Japan, are taught to privilege the ‘we’ in choosing, and they see themselves primarily in terms of the groups to which they belong, such as family, co-workers, village, or nation.” Iyengar (2010, p. 33) goes on to say: “..the Japanese saying makeru ga kachi (literally ‘to lose is to win’) expresses the idea that getting one’s way is less desirable than maintaining peace and harmony....people in such societies then, strive to fit in and maintain harmony with their social in-groups.”

This is in stark contrast with Western society, where since the Enlightenment of 17th and 18th century Europe, the idea of universal individual rights has been propagated. This is best
conveyed by writers such as Adam Smith, who in 1776 argued that if each person pursued his own economic self-interest, society as a whole would benefit as if guided by an ‘invisible hand,’ and by the philosopher John Stuart Mill who in the 19th century wrote that “the only freedom deserving the name is that of pursuing our own good in our own way...” (Iyengar, 2010, p. 32).

Japanese workers might therefore form clans based on the conditioning inculcated by their national culture, rather than on the socialisation process employed by the firm. There is no guarantee either that employees in Western organisations will allow themselves to be socialised. It would appear, then, that Ouchi’s 1980 paper still falls short of providing a convincing reason for the formation of clans in Western society.

This is an important issue, and may be part of the reason why the idea of clan culture and the resultant control effects have not been more readily accepted in the management accounting literature. Many of the references in the management accounting literature (as observed by this researcher) refer either to Ouchi’s 1979 and /or 1980 papers (e.g. Chenhall, 2003; Alvesson and Kärreman, 2004; Malmi and Brown, 2008; Berry et al, 2009). However, it will be argued below that it is only in later works (such as the paper co-authored with Wilkins in 1983) that Ouchi finally provides a convincing justification for all aspects of clan control.

2.5.2 The Clan Concept Revisited: Wilkins and Ouchi (1983)

Wilkins and Ouchi (1983) make the same points about transaction costs and reciprocity as in Ouchi (1980). However, other concepts mentioned in the 1980 paper are modified and/or expanded, while certain new ideas are introduced. Modifications, expansions and additions are as follows (Wilkins and Ouchi, 1983):

- The central problem of organisation (or governance of transactions) is stated as being that of determining how a perception of equity may be achieved amongst self-interested people who are boundedly rational.

- The clan is able to be efficient in governing transactions under conditions of relatively high uncertainty and complexity. However, to do so it requires (i) relatively high levels of goal congruence, and (ii) the sharing of some general paradigm that helps participants to determine collective interest.
‘Goal congruence’ in this context does not mean that clan members and the organisation must have specific goals in common; it means instead that clan members tend to believe that in the long run they will be treated equitably. This belief permits short-term inequities without destroying the clan relationship, and permits cooperative action even though specific equity cannot be determined.

Two further underlying assumptions about goal congruence that must exist if clan control is to function are: (1) that joint effort is the best way to achieve individual self-interest; and (2) that in the long run both honest and dishonest people will be discovered and dealt with appropriately.

The term ‘paradigm’ means the sharing of general assumptions and values, as described by Kuhn (1970) with regard to scientific communities.

The way in which these two concepts result in cohesive clans is described as follows by Wilkins and Ouchi (1983, p. 471): “Thus the notion of goal congruence helps us understand the motivation of members to cooperate and work in the clan (a belief in the general equity of the association), and the paradigm suggests how members, once motivated, in general determine what is in the interest of the clan. ....neither concept requires the assumption that clan members have specific goals in common.”

Wilkins and Ouchi (1983) suggest that some of the conditions conducive to clan formation are likely to be:

- A reasonably long history and a reasonably stable membership (citing Schein, 1981).

- The telling of stories throughout the social group which were more often ‘shared stories’ that illustrated and legitimised a common management philosophy.

- Considerable effort by management to screen applicants, to improve the likelihood that new members would already possess certain values and orientations in common with those promoted by the organisation.

- A strong and shared claim of uniqueness, so that participants felt that their firm was significantly better than, and different from, any other company in the industry.
- An atmosphere where many individuals are encouraged to offer opinions on decisions, rather than having decision-making dominated by single individuals.

2.5.3 Empirical Evidence of Clan Controls

A number of recent management control studies have found evidence of clan controls, and have identified the circumstances in which they are most appropriate and effective. The first study to be reviewed illustrates these issues, but also suggests an interplay between clan controls and more formal control systems.

Alvesson and Kärreman (2004) conducted a study of the control methods used in a Nordic subsidiary of a global management consultancy. Using a case study approach, they examined specifically how different forms of technocratic control interacted and merged with socio-ideological controls. Technocratic controls were described as attempts to directly control worker behaviour via plans, arrangements, and systems based on measurable outputs. Socio-ideological controls, on the other hand, were considered to be those which affect behaviour indirectly, such as norms, emotions, beliefs and values.

A key theme regarding the consultancy firm’s control processes was the high level of compliance achieved, even though this made strenuous demands on project team members (control being exercised at the team level). Team members were required to work very long hours, and accept ambitious objectives in terms of project deadlines and project margins. The fact that they were prepared to do so contributed considerably to the financial success of the company.

Alvesson and Kärreman (2004) found strong evidence of clan controls. The consultancy applied selective recruitment and employed a highly homogenous work force, while socialisation and other ritualised, ceremonial forms of control were also in evidence.

However, the researchers felt that there were also good reasons to emphasise the symbolism of the technocratic systems and procedures, as these drew attention to certain dimensions and also framed consciousness in a particular way. They suggested that the company operated as a “technocratically framed clan” (Alvesson and Kärreman, 2004, page 442), and concluded that technocratic and socio-ideological controls should not be seen as mutually exclusive.
Clan control appears to be the most appropriate form of control in what are known as knowledge-intensive firms (KIFs), a description that would almost certainly apply to the firm in the above-mentioned case study by Alvesson and Kärreman (2004). KIFs are described as companies where most work is of an intellectual nature and where well-educated, qualified employees make up most of the workforce. KIFs are also characterised by their capacity to solve complex problems by developing creative and innovative solutions (Robertson and Swan, 2003).

Ditillo (2004) investigated the use of clan controls in a KIF. Using a case study approach, he analysed the controls employed by three different software development teams in a knowledge-intensive IT firm. The first team had to deal with issues of computational complexity, the second with issues of technical complexity, whereas the third group was required to develop a completely new product which required a great deal of innovation. This represented a situation of cognitional complexity, involving new processes for the staff involved. It also entailed innovative problem solving, unknown outcomes, and potentially unexpected exceptions. There was no strict deadline for the project, with completion dates being basically self-defined by the team members.

It was found in the case of the third group that control was exercised by way of cultural and personnel controls. The project manager acted more as a facilitator than as a manager, holding informal discussions with team members and monitoring progress, but otherwise staying out of people’s way and trusting the team of highly competent technical experts to ‘get on with it’ (Ditillo, 2004, p. 415). Implementation of personnel controls by the project manager involved his providing the necessary technical and other facilities for the project team, whereas cultural control was exerted by way of informal and intensive interaction and communication between team members (Ditillo, 2004).

Ditillo (2004) uses Merchant’s (1998) ‘object of control’ framework to distinguish between results, action and personnel/cultural controls. His finding that personnel and cultural controls were in place is almost a default position, after determining that results and action controls were not in use by the project team. Ditillo (2004) describes personnel controls as being based on employees’ natural tendency to control themselves, and cultural controls as being based on the belief that by fostering a sense of solidarity and commitment towards the organisation’s goals, individuals can become immersed in the interests of the organisation.
However, Ditillo (2004) makes no attempt to explain how this sense of solidarity and commitment is instilled in team members. His description of the working environment (involving a high level of uncertainty) and the modus operandi of the team members suggest clan control, but despite citing Ouchi (1979), Ditillo (2004) prefers the vaguer umbrella term of cultural control. One is again left with a sense that the researcher might not have an in-depth appreciation of the workings of clan control.

The final study in this section highlights the consequences of applying an inappropriate form of control where input/output relationships cannot easily be determined. Although not an example of clan control as such, the findings have relevance for those environments best suited to clan-type controls.

Abernethy and Stoelwinder (1995) note that professionally qualified employees are increasingly being employed in organisations where output controls are the norm. However, according to most of the control literature, clan-type controls involving social and self control mechanisms are more appropriate in ‘professional’ environments. This is because professionals undergo a lengthy training and socialisation process, and because their working environment is often characterised by unpredictable and complex work demands (Abernethy and Stoelwinder, 1995).

In a study of 91 medical professionals employed in a Melbourne hospital, it was determined that individuals with a high professional orientation found output forms of control most offensive, i.e. where superiors imposed targets then measured performance against those targets. However, where self-regulatory activities were not restricted, role conflict was reduced and individual job satisfaction and overall sub-unit performance were improved (Abernethy and Stoelwinder, 1995).

2.5.4 Conclusions drawn from the Clan Control Literature

The literature reviewed in this sub-section suggests that clan formation (and the resultant culture and control which ensue) can be explained by a theory which incorporates transaction costs, a norm of reciprocity which meets the required standards so that goal congruence is achieved, and the sharing of some general paradigm that helps to determine collective interest. It should be noted that ‘goal congruence’ in this context is not to be understood as the sharing of common goals, but rather a belief by clan members that in the long run they will be treated equitably.
This theory obviates the need for specific common goals, and the changing of member values via a socialisation process. It is, however, noted that the screening of applicants can help to foster clan cohesiveness, by identifying and employing those applicants with values and orientations which are aligned with those of the organisation.

It has also been established that, in KIFs and organisations or sub-units of organisations where conditions of high ambiguity prevail (i.e. where means-ends relationships are not well understood), clan forms of control are likely to be more appropriate and successful than technocratic forms of control. However, the effects of technocratic controls operating in conjunction with clan controls should also be considered. These effects can be both positive (Alvesson and Kärreman, 2004) and negative (Abernethy and Stoelwinder, 1995).

It may also be significant that certain management accounting researchers do not appear to have fully engaged with socio-ideological forms of control such as personnel controls and clan controls. For example, Malmi and Brown (2008) appear to have misunderstood personnel controls, confusing the means of implementing personnel controls with the controls themselves.

Furthermore, in explaining the working of clan controls, Malmi and Brown (2008) refer only to Ouchi’s 1979 paper. As suggested previously, it appears that Ouchi had only crystallised his thinking on clans some years later (e.g. Wilkins and Ouchi, 1983), and that the 1979 conception of clan control appears to have identified an effect, but had not yet presented a plausible cause or causes for this effect. This may have influenced the way in which clan controls have been understood, and the extent to which they have been accepted, in the management accounting literature.

Ditillo (2004) has also looked no further than Ouchi’s seminal (1979) paper. As a result his possibly incomplete knowledge of clan control, and his apparent neglect in not asking why or how cultural controls might foster a sense of solidarity and commitment towards the organisation’s goals, might have led him to fall short of a more meaningful interpretation of the case study scenario.

Of some significance is the possibility that clan controls may be prevalent in modern, heterogeneous firms, and not just in KIF’s and other clan-type organisations. Although Ouchi (1979) stated that the clan was not a feasible form of control in modern organisations due to its inability to cope with heterogeneity and staff turnover, that conclusion may be
questioned in the light of Wilkins and Ouchi’s (1983) paper, as well as other subsequent findings.

For example, Wilkins and Ouchi (1983) suggest that the sharing of a common paradigm that determines collective interest will foster clan control. Although this may seem more likely in a homogeneous, clan-like environment, modern heterogeneous organisations such as General Electric have developed values and thereby cultures which require employees to “act in a boundaryless fashion” thereby encouraging collaborative effort and the sharing of best practices across divisions and disciplines (Welch, 2005, p. 18).

In a similar vein, Porter (1996) maintains that organisations obtain a competitive advantage not from increased operational effectiveness, but from the entire system of activities that they carry out. He states that this requires the integration of decisions and actions across many independent sub-units. Competitive companies do not, therefore, achieve success from individual strengths, core competencies, or critical resources, but from a list of strengths that cuts across many functions (Porter, 1996).

It can also be argued that modern heterogeneous organisations achieve a high degree of homogeneity via the use of personnel controls, recruiting and retaining employees who share the same values as espoused by the organisation. For example, during Welch’s tenure as CEO General Electric placed great emphasis on the human resources function, and also employed a 20/70/10 approach to personnel management (Welch, 2005).

Based on an honest and transparent annual evaluation system, this involved the top 20% of employees being “showered with bonuses, stock options, praise, love, training, and a variety of rewards to their pocketbooks and souls” (Welch, 2005, p. 41). The next 70% of employees were kept engaged and motivated by way of training, positive feedback, and thoughtful goal setting. Finally, those who found themselves in the bottom 10% of employees were dismissed. This ensured that, over time, the remaining employees were those who most readily bought into GE’s value system (Welch, 2005).

It is entirely possible, therefore, that employees in modern organisations exercise a high degree of self-control in order to achieve organisational objectives. They do so because of the clan effect, believing, because of an organisational culture that supports this belief, that collective efforts are the best way of ensuring corporate success. They also believe that such success will lead to personal advancement and rewards.
Organisational writer Childs (2005) provides support for this view, pointing out that cultural control is in tune with the increasing numbers of professional and other knowledge workers in society. Echoing the views of Ouchi (1979), he maintains that cultural control has long been applied within the professions, where it has combined with personal autonomy to follow strongly internalised norms of competence and correct conduct. The rising proportion of knowledge workers is therefore establishing the need for a new approach to control that relies more heavily on internalised self-control (Child, 2005).

Because of the established role of clan controls in homogeneous knowledge-intensive firms, and the possibility that clan controls may also be applied in modern heterogeneous organisations, it is important that Ferreira and Otley’s (2009) framework be able to detect this form of control. The extent to which it can do so will be an important test of the adequacy and robustness of the framework, and will help to address the second objective of this study.

2.6 Culture as a Paradigm: The Implications for Cultural Change, Management Control and Performance Management

One of the reasons advanced by Ferreira and Otley (2009) for the exclusion of culture from their evaluative framework is that culture is difficult to change. The reasons for such difficulty will be examined in this section. This will allow for a more critical analysis of the cultural change literature, which follows in a later section.

It also appears that the paradigmatic nature of culture might have implications for management control systems and performance management systems. These issues will be identified and discussed in this section.

2.6.1 The Nature of Cultural Paradigms and the Implications for Cultural Change

A number of influential writers in the field of culture (per Hughes, 2010) have examined the effects of the paradigmatic nature of culture (e.g. Schein, 2004; Johnson, 1992). The term “paradigm” has been described in a number of ways. Senge (1995, p. 102) describes a paradigm as “the prevailing motivations and assumptions held (and generally unvoiced) by people.” Kuhn (1996, p.175), in discussing the structure of scientific revolutions, refers to a paradigm as “…the entire constellation of beliefs, values, techniques, and so on shared by members of a given [scientific] community.”
In similar fashion Johnson (1992, page 29) cites Schein’s (1986) definition of culture in describing the cultural paradigm as “the deeper level of basic assumptions and beliefs that are shared by members of an organization, that operate unconsciously and define in a basic ‘taken for granted’ fashion an organisation’s view of itself and its environment.” It is also seen as important to ensure the success of the organisation. As a result, the diverse and often confusing signals that the organization faces are made sense of and filtered in terms of this paradigm.

Johnson developed his explanatory model by addressing the resistance to change exhibited by executive teams required to make drastic revisions to their business strategy in response to environmental changes. He notes that much strategic change occurs gradually, and is shaped by the existing cultural paradigm. He refers to this as ‘logical incrementalism.’ This can be beneficial if the paradigm encompasses the special competences and skills of the organisation, and the means by which it could expect to achieve a competitive advantage. However, it can lead to serious strategic problems if the organisation is faced with significant internal and/or external change (Johnson, 1992).

Part of the resistance to change that occurs in organisations is due to the fact that the paradigm is hedged about and protected by a web of cultural artefacts. These artefacts correspond largely to those described earlier by Schein (2004), and serve to provide a template for the way members respond to given situations, and determine ‘the way we do things around here.’ Because the most powerful managerial grouping in the organisation is likely to be most closely associated with the key constructs of the paradigm, the action of organisational life is going to be bound to the paradigm by the web of cultural artefacts (Johnson, 1992).

When faced with pressure for change, managers are likely to respond in ways which are in line with the prevailing paradigm. This causes real difficulties when the strategic change required is outside the scope of the paradigm, as managers are now required to substantially change their core beliefs and modes of operation. Case study evidence gathered from a number of different organisations suggests that this does not happen easily (Johnson, 1992).

Although Johnson (1992) does not acknowledge the influence of Kuhn’s writings on his theory of cultural paradigms, it is interesting to note the similarities in their respective approaches to major change. Kuhn (1970, 1996) notes that scientific communities also develop paradigms, based on the accepted theories and findings in their fields.
Kuhn (1996) points out that most successful scientific progress is incremental, adding little by little to the body of existing knowledge. However, scientific progress also displays a non-cumulative or revolutionary mode. This occurs when an anomaly arises which cannot satisfactorily be explained by the existing paradigm. After some time the existing paradigm is discarded, to be replaced by a competing paradigm.

It is significant to note that, when a competing paradigm is introduced, scientists do not generally abandon the paradigm responsible for the crisis. At first they attempt to modify or articulate the existing theory in order to eliminate any apparent conflict. The new paradigm is only accepted after considerable turmoil within the scientific community. It is also important to note that the transition from the old paradigm to the new is not a cumulative process. It is a reconstruction of the field from new principles, resulting in a fundamental change in methods and applications (Kuhn, 1996).

So, because of the considerable psychosocial difficulties encountered by groups in making such ‘paradigm shifts,’ scientific revolutions are strongly resisted by those who are wedded to the existing paradigm. In the same way, organisational groups resist radical change which requires the adoption of a new cultural paradigm, as described by Johnson (1992).

It is interesting to note that Kuhn’s (1996) distinction between incremental change within an existing paradigm, and drastic or revolutionary change requiring a new paradigm, parallels Johnson’s (1992) theory of strategic change. The resistance to such change is also noted by both men.

Inasmuch as Kuhn’s (1996) observations reflect aspects of human group behaviour (albeit in a different field), the fact that they support the findings and views of both Johnson (1992) and Schein (2004) would appear to give further credence to the influence of cultural paradigms on organisational group behaviour, and to their explanatory power with regard to behavioural change (and particularly the resistance thereto) by groups.

Whereas Johnson (1992) notes the effect of cultural paradigms, Schein (2004) provides an explanation of how and why paradigms are formed, and of how this fosters our understanding of the difficulties surrounding cultural change. Schein (2004) explains that all human systems attempt to maintain equilibrium and maximize their autonomy in relation to their environment. The set of shared assumptions, which develop over time in groups and organisations, serve to provide this stabilising and meaning-providing function.
The evolution of culture is therefore one of the ways in which a group or organisation maintains its integrity and autonomy. Culture also allows a group or organisation to differentiate itself from the environment and other groups, and to provide itself with an identity. This explains why cultural change can be difficult to achieve; what the group has learnt has become embedded in various routines, and may have become part of the personal and group identity. As a result even some dysfunctional behaviour by group members may be difficult to give up, as the required change may make members lose group membership, or may violate some aspect of their identity (Schein, 2004).

Despite the resistance to change which results from the existence of a cultural paradigm, many writers believe nevertheless that cultural change can be achieved. These claims will be examined in Section 2.7 of this study.

2.6.2 The Cultural Paradigm: Implications for Management Control Systems and Performance Management Systems

As noted above, management control systems play a role in the functioning of the cultural paradigm. Johnson (1992) sees management control systems as part of a web of cultural artefacts, which serves to bind the actions of the organisation to the cultural paradigm. Schein (2004), on the other hand, suggests that organisations develop management control systems as part of the process by which the managing coalition addresses its survival in, and adaptation to, its external environment. Schein (2004) explains that the systems which emerge become central elements of the organisation’s culture, as consensus develops around the criteria the organisation chooses and the systems it develops to measure itself.

It seems therefore that management control systems help to shape culture, and are themselves shaped by the emergent attitudes and beliefs of the managing coalition. As cultural artefacts, they help to strengthen the cultural paradigm and also represent the superficial level of an organisation’s culture. Their cultural meaning will depend upon the way in which they are perceived by insiders (Hofstede, 1990).

Ferreira and Otley (2009) accept that culture is an important contingent variable. They believe that culture might provide insights into why certain patterns of control are more or less effective, but seem not to envisage culture shaping control system choice and design in any meaningful way. This may be an important oversight, as it may not be possible to fully understand an organisation’s choice of control systems without understanding its prevailing cultural paradigm.
The idea of culture as a paradigm may also require the re-thinking of the contingency theory of control. Contingency theory suggests that certain contextual variables have an influence on control systems design and use. The literature has identified these variables as external environment, strategy, national culture, organisational structure, size, technology, and ownership structure (Chenhall, 2003).

However, what the contingency theory literature has not recognised is that in many instances (e.g. external environment, strategy, organisational structure, ownership structure) it is perhaps not the effect of the contingent variable that should be considered, but rather the effect of the managing coalition’s view of that variable, as filtered through the lens of its particular cultural paradigm.

To maintain the relevance of management control system contingency-based research, Chenhall (2003) has suggested that, among other issues, much can be gained by reflecting on the more recent thinking in areas such as organisational and cultural change. The issues discussed above would certainly appear to support that view.

With regard to performance management, Johnson’s (1992) and Schein’s (2004) conceptual frameworks could also have implications for strategic management models such as the balanced scorecard, and for performance management frameworks such as that of Ferreira and Otley (2009). Such models assume that, if the strategy being implemented is not bringing about the desired financial results, such strategy can be amended, or even discarded and replaced with a new strategy (Ferreira and Otley, 2009; Kaplan and Norton, 2001).

If the nature of the strategic change is incremental and can be filtered through the existing paradigm, it would appear to have a greater chance of success. However, if the replacement strategy needs to be revolutionary, requiring a paradigm shift in response to significant environmental changes, this may be a lot more difficult to achieve. This reality does not appear to have been recognised in the performance management literature.

2.7 Managing Cultural Change

For over three decades, writers on organisational culture have suggested that by managing their cultures, organisations can improve their performance (Handy, 1978; Deal and Kennedy, 1982; Peters and Waterman, 1982). This notion has more recently been articulated by Beer (2000, p. 373) who suggests that: “organisational change involves
confronting the persistent pattern of behaviour that is blocking the organisation from higher performance, diagnosing its consequences, and identifying the underlying assumptions and values that have created it.” However, even Beer acknowledges that about 70% of all change initiatives fail, and that most change programmes do not deliver benefits proportional to the resources devoted to them (Beer and Nohria, 2000).

In reviewing the literature over the past 30 years, Hughes (2010) notes that the wave of populist cultural change literature launched during the 1980s and early 1990s has not been sustained. Deal and Kennedy, after almost twenty years of exposure to cultural change initiatives, expressed this most succinctly in 1999: “There must be a million consultants promising to help ‘change the cultures’ of companies. What a lot of bollocks” (Deal and Kennedy, 1999, p. 35).

Alvesson (2002a) notes that the most popular view of cultural change among those who believe it to be possible, is the view of change as a large-scale technocratic project. Such a view suggests the possibility of an intentional transformation from a less desirable cultural situation to a superior and more profitable one. It is generally acknowledged, though, by the proponents of these change models that such change is not easy and takes place slowly (e.g. Kotter, 1996; Beer, 2000).

Alvesson and Sveningsson (2008) note that there is no successful recipe for large-scale organisational culture change. The reasons why cultural change might be difficult were set out earlier in the explanatory models of Johnson (1992), Kuhn (1996), and Schein (2004), and are reinforced by the above-mentioned objections gleaned from the literature.

The message which emerges from the literature (and in particular, the change management literature) is that culture is not a variable which can easily be manipulated by management to enhance organisational performance. To even speak of a homogeneous organisational culture may be misguided, as almost every organisation (except perhaps the very smallest) is likely to be made up of various different sub-cultures. The notion of a homogeneous organisational culture may exist, then, more as a perception of senior management than as a reality (Alvesson and Sveningsson, 2008).

What then of managing culture as a means of control? Johnson and Gill (1993) contend that it may be possible if organisation is seen to rest in shared systems of meaning. They explain their position as follows: “Influencing the norms that communicate key objectives is the
action suggested, managers being symbolic actors who foster desirable patterns of meaning. However, when we look at the processes by which this may be achieved, we are looking at a much more demanding, subtle and democratic activity on the part of management than the literature suggests” (Johnson and Gill, 1993, p. 110).

Alvesson and Sveningsson (2008) also maintain that the management of meaning via everyday reframing of employees’ views is a means of achieving incremental change in local groups within the organisation. They concur with Johnson and Gill (1993) that this is not an easy process, demanding creativity, stamina, and insights into one’s own beliefs, values and ideas. It may also involve compromises, e.g. if one wishes to engender creativity and learning, then quality and short-term efficiency may have to be sacrificed as new ideas and experimentation are likely to involve some errors and additional resources (Alvesson and Sveningsson, 2008).

Schein (2004) agrees with but expands upon the beliefs of Alvesson and Sveningsson (2008), and Johnson and Gill (1992), to suggest that the creation and management of culture is uniquely associated with leadership. Despite acknowledging the difficulty of changing an entrenched culture, Schein (2004) nevertheless contends that the dynamic processes of culture creation and management are the essence of leadership; that leadership and culture are in fact two sides of the same coin.

Schein (2004) believes that founders, as well as subsequent leaders of the organisation, have certain primary embedding mechanisms available to them, with which they embed their beliefs, values and assumptions. These beliefs, values and assumptions are based on the founder’s and leaders’ own conscious and unconscious convictions. Primary embedding mechanisms include (but are not limited to) what leaders pay attention to, measure and control; how leaders react to critical incidents and organisational crises; how they allocate resources; how they allocate rewards and status; and how they recruit, select, promote and excommunicate (Schein, 2004).

Leaders also employ certain secondary articulation and reinforcement mechanisms. These involve artefacts such as organisational design and structure, organisational systems and procedures, organisational rites and rituals, stories about important events and people, and formal statements of organisational philosophy, creeds, and charters (Schein, 2004, p. 246).

Schein advises that an important aspect of the above-mentioned mechanisms is that they communicate culture content to newcomers. Leaders do not have a choice as to whether or
not to communicate; they can, however, choose the extent to which they manage this communication (Schein, 2004).

Schein (2004) explains that self-guided evolution can also result in cultural change as the organisation matures, and its members come to better understand the organisation’s cultural strengths and weaknesses. These insights can allow the leader to steer cultural change in the desired direction, which can in turn be achieved by applying the appropriate embedding mechanisms mentioned earlier.

There is considerable support in the literature for managed incremental cultural change, as described by Alvesson and Sveningsson (2008), Johnson and Gill (1992), and Schein (2004). For example, Jazayeri and Scapens (2008) describe how British aerospace company BAE achieved a six-fold improvement in share price some five years after implementing a major cultural change programme. Appointed CEO of BAE in 1990, Sir Richard Evans launched the change program in 1994 in response to serious competitive pressures which threatened the company’s long-term existence.

As champion of the change process, Evans noted that “...unless the need for change freely emerges out of honest and open discussion, deep-seated transformation will never occur....since the goal was to change behaviour, we had to deploy group and peer pressure to achieve [this] purpose. So I looked for a balance: neither hurrying the process, nor letting it take too long” (Evans and Price, 1999, p. 28, as cited by Jazayeri and Scapens, 2008, p. 57). Although Jazayeri and Scapens (2008) note that the eventual financial success of BAE cannot be ascribed solely to the cultural change programme, opinion within the company was that it had played a significant part in this success.

Sir Brian Pitman found himself in a similar position to Evans when in 1983 he became CEO of Lloyds Bank in the UK. At the time Lloyds had a culture where annual increases were based on inflation rather than merit, and a growth strategy which had resulted in more than half of Lloyds’ businesses earning a return below their cost of capital. Shortly after being appointed to his post as CEO, Pitman launched what was to become a successful value-based management programme at Lloyds (Pitman, 2003).

As Pitman soon learnt, value-based management involved more than the application of a new performance metric or accounting method; it required the transformation of employees’ beliefs (Pitman, 2003). Reshaping Lloyds also met with considerable resistance both inside and outside the company, and was ultimately achieved by Pitman over some
years. Transforming the company required Pitman to lead employees on a journey of learning, a journey which provided new insights into the means by which shareholder value could be created (Pitman, 2003, p. 46).

This is very much in line with Alvesson and Sveningsson’s (2008) contention that incremental change in local groups within the organisation can be achieved via the everyday reframing of employees’ views. Other writers have also emphasised the role of managers who play an educational role as part of the change process. For example, Lawrence et al (2006, p. 64) note that: “The work of educators is perhaps the most overlooked. …..educators often depend on subtlety, leading others to work in ways that indirectly shift their perceptions and understandings.”

2.7.1 Conclusions Regarding the Cultural Change Literature

Ferreira and Otley (2009) have conceded that management actions may influence some aspects of culture, and that it might therefore be appropriate to include culture in a wider performance management systems framework.

The findings from the cultural change literature appear to support this view. Although large-scale cultural change programmes have met with limited success, there is evidence from the literature that the actions of leaders and managers can achieve incremental cultural change over time.

This can be understood in the context of cultural change and the nature of the cultural paradigm, as discussed earlier. A large-scale challenge to the prevailing paradigm (i.e. of the magnitude to require a ‘paradigm shift’) is more than likely to be met with strong resistance and even rejection (Johnson, 1992). However, where change can be achieved incrementally, via a journey of learning which leads to a change in employees’ beliefs (i.e. a changed paradigm), cultural change is indeed possible. The various embedding mechanisms available to leaders, as mentioned by Schein (2004), are also likely to be more efficacious if employed over a period of time.

It is also apparent from the literature that cultural change effected by managers can result in improved organisational performance. The overall findings of this sub-section therefore serve to support the claim that culture as a control variable deserves to be included in Ferreira and Otley’s (2009) framework.
In the next chapter the research methodology employed in this study will be set out and justified.
Chapter 3
Research Methodology

3.1 Introduction

This chapter identifies and justifies the research paradigm applicable to this study, as well as the research method employed. Methods of data collection and data analysis are also presented. Finally, the limitations of the study are discussed.

3.2 Research Paradigm

This study sets out to determine and evaluate the formal and informal methods of management control and performance management employed by a small South African consulting company during 2006/2007. To this end the two main research paradigms were considered, which according to Hussey and Hussey (1997) can be labelled positivist and phenomenological.

Hussey and Hussey (1997, p. 48) suggest that it is best to regard the positivist and phenomenological paradigms as two extremes of a continuum, with the characteristics and assumptions of one paradigm being gradually relaxed and replaced by those of the other as one moves along the continuum. To appreciate and justify the approach taken in this study, the characteristics and assumptions of both the positivist and phenomenological paradigms will now be examined.

As applied in the social sciences, the positivistic approach seeks the facts or causes of social phenomena, with little consideration for the subjective state of the individual. Logical reasoning is applied to the research, with precision, objectivity and rigour replacing experience and intuition as the means of investigating research problems. The positivistic viewpoint sees laws as providing the basis of explanation, with both the natural and social worlds being bound by certain fixed laws in a sequence of cause and effect. Positivists believe that social scientists can adopt the role of observers of an independent and pre-existing reality; they should remain distant when conducting their research and not allow values and bias to distort their objective views (Hussey and Hussey, 1997, p. 52).

Phenomenology, on the other hand, is the science of phenomena, with a phenomenon being described as a fact or occurrence that appears or is perceived, especially one of which the
cause is uncertain (Allen, 1990, p. 893). The phenomenological paradigm emerged in reaction to the positivistic paradigm, and is concerned with understanding human behaviour from the participant’s own frame of reference. It assumes that social reality is within us, and that the act of investigating reality therefore has an effect on that reality. Phenomenology is a qualitative approach which emphasises the subjective aspects of human activity by focussing on the meaning rather than the measurement of social phenomena (Hussey and Hussey, 1997, p. 52 & 53).

The research methods used under this approach encompass a variety of interpretative techniques which look to describe, translate and generally come to terms with the meaning rather than the frequency of certain more or less naturally occurring phenomena in the social world (Van Maanen, 1983, p. 9). The methods differ from the positivist approach in that they involve the study of direct experience taken at face value, and regard behaviour as being determined by the phenomena of experience rather than by external, objective, and physically described reality (Cohen and Manion, 1987). Lofland and Lofland (1984, p. 1) have also referred to phenomenological research as that which uses the data collection techniques of particular observation and/or intensive interviewing, and data analysis techniques that are non-quantitative.

In this study both positivist and phenomenological methods have been applied, for the following reasons: In the first instance, Ferreira and Otley’s (2009) evaluative framework was used to identify the management control systems in place in the case study company. This framework was developed inductively over some years, based on the relevant literature and on the authors’ observations and research experience (Ferreira and Otley, 2009, p. 263 &264).

As far as identifying the organisation’s technocratic controls was concerned, a deductive or positivist approach was required, relying on the logical application of Ferreira and Otley’s (2009) criteria. [Technocratic controls are those controls intended to exert a direct influence on output and behaviour (Alvesson and Kärreman, 2004)]. Ferreira and Otley in effect hypothesise that their framework will be able to identify the management control and performance management issues in an organisation. The deductive application of their framework tested this hypothesis as far as the identification of technocratic controls was concerned, and relied essentially on an objective gathering of the facts.
The identification of socio-ideological controls, however, called for a different approach. Socio-ideological controls are those controls intended to influence the minds of employees (Alvesson and Kärreman, 2004). Ferreira and Otley (2009) acknowledge that their framework does not address cultural controls, a criticism that has also been levelled by various other researchers (e.g. Collier, 2005). In seeking to determine whether cultural and other associated socio-ideological controls were employed in the case study company, the actions, values and behaviours of the case study employees had to be qualitatively assessed and evaluated by the researcher over a period of months. This required ongoing observation, in-depth interviews, and a qualitative evaluation of the data, i.e. a phenomenological approach to data gathering and analysis.

3.3 Research Method

The case study method has been employed in this study. It has been suggested that the case study methodology is a research strategy for the social scientist in a similar sense as experiments are a research strategy for the natural scientist (Smith, 1990). It has been defined by Yin (1994, p. 13) as “an empirical enquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.” Yin goes on to describe it as being an appropriate form of research when ‘how’ and ‘why’ questions have to be asked, when no control is required over behavioural events, and when a focus on contemporary events is required (Yin, 1994).

This study meets all three requirements; ‘how’ questions have been asked in respect of the means of control achieved by the case study company, and ‘why’ questions have tested the appropriateness of the methods employed (with reference to the literature). The setting of the case study is a contemporary one, and the researcher has been an observer of events and (to a far lesser degree) a participant therein, but has not needed to, or attempted to, control events. The exact levels of involvement by the researcher are spelt out in more detail in the data collection section (3.4) below.

The philosophy behind the case study method recognises that, at times, a full picture of the actual interaction of variables or events can only be obtained by looking carefully at a practical, real life instance. The case study allows the investigator to concentrate on specific instances in an attempt to identify detailed interactive processes which may be crucial, but which are not likely to be detected by way of a large scale survey. The aim of the case study,
therefore, is to provide a three-dimensional picture of the situation. It can illustrate relationships, corporate political issues and patterns of influence in a particular context (Remenyi, 1996).

This research is based on a single case study. Yin (1994) explains that criticism of the single case study approach is based on the proposition that one cannot generalise the findings from a single case study. However, as he points out, case studies are generalisable to theoretical propositions rather than to populations or universes. The case study does therefore not represent a sample, and the researcher’s goal is to “expand and generalise theories (analytic generalisation) and not to enumerate frequencies (statistical generalisation)” (Yin, 1994, p. 10). Citing Lipset, Trow and Coleman, (1956, p. 419/420), Yin (1994, p. 10) quotes these social scientists as saying that their goal in using a single case study was to conduct a generalising rather than a particularising analysis.

The single case study approach has also been recognised in the management accounting literature as being the desired approach to field research. Ittner and Larcker (2001, p. 396) note that: “Greater use of detailed data from a single or small number of organisations is also recommended. Although small sample studies will always be subject to complaints about their generalisability, such studies may provide the only means for obtaining the quantity and level of data needed to answer many management accounting questions.”

Otley (2001) goes so far as to claim that the single case study is the best method for investigating management control and performance management issues. In his view, field-based methods are most likely to pick up on the wide variety of control mechanisms used in practice, and also to firmly ground the development of theory in empirically observed practice. This is not to suggest that all practice should uncritically be accepted as appropriate; however, such an approach will allow for the observed effects of different practices in different circumstances to be documented. Any inductively generated theory that evolves from such work can then be subjected to further testing and development.

A single case study approach is deemed appropriate for this study, for the reasons mentioned previously by Yin (1994), Ittner and Larcker (2001), and Otley (2001). It is also significant that the case study organisation to be studied is of a particular type, i.e. a knowledge-intensive firm. The literature suggests that, in such firms, socio-ideological forms of control are most appropriate (Swan and Robertson, 2003). What is more, the evaluative framework of Ferreira and Otley (2009) being analysed in this study, and which will be
applied to the case study company, has been criticised for not recognising socio-ideological controls. The use of a single knowledge-intensive firm therefore allows for the appropriateness of socio-ideological controls in knowledge-intensive firms to be examined, as well as the completeness of the evaluative framework being applied.

3.4 Data Collection

Data collection occurred over an initial twelve-month period between April 2006 and March 2007. During this time the researcher was employed as an in-house consultant by the holding company of which the case study organisation was a subsidiary. The consultancy required the implementation of a performance management system throughout the group, a diversified holding company. The case study company, which had been newly acquired, was acknowledged to have an excellent CEO and superior management control systems in place, and the researcher’s brief was to familiarise himself with these systems with a view to evaluating and adapting them if necessary before rolling them out throughout the group.

The researcher approached the case study organisation with the intention of carrying out the consultancy brief, but also with the intention of gathering data for this study. However, not being acquainted with the CEO or management team, at the initial stage the academic study was not mentioned. Data was gathered on the basis that it might be used for an academic case study at a later stage should permission be granted. (This possibility was however discussed and agreed up-front with the CEO of the holding company, who advocated this approach).

Adler and Adler’s (1987) taxonomy of field research methods was then considered in order to determine the appropriate level of researcher involvement in the case study. Adler and Adler’s (1987) taxonomy presents a continuum of researcher involvement, from observing members at one end of the scale to complete membership of the observed organisation at the other. Three research traditions are represented; “The Chicago School of Sociology,” “Existential Sociology,” and “Ethnomethodology.” The characteristics of each are:

- The Chicago School – Involvement increases from observing members, to interacting with members, to participating with members.
- Existential Sociology – Involves investigative participation
- Ethnomethodology – In the extreme case, this requires a deep commitment to the organisation being studied, i.e. becoming a complete member of the organisation
and taking on the obligations and engaging in the activities just as any fully-fledged member would do.

Ethnomethodology, while similar in approach to existential sociology, was regarded as being too extreme for the type of study being conducted. As ethnomethodology requires the researcher to become a complete member of the organisation, taking on obligations and engaging in activities as fully-fledged members would do, there was thought to be a greater danger that the researcher might influence the environment of the study. The nature of the consultancy brief also rendered this approach impracticable.

Advocates of The Chicago School suggest that the researcher adopt an overt role and acknowledge to organisational members that they are conducting a study. The researcher should also, over time, participate fully in organisational activities. This approach was rejected for two reasons: as with ethnomethodology, it was feared that emotional detachment might be difficult if the researcher were to participate fully in organisational activities. Also, as mentioned previously, as it had been decided not to mention the academic study at first, it would not be possible to advise the organisation’s members that a study was being conducted.

The third option, existential sociology, seemed viable. This involves investigative participation, which posits that people in organisations present two sides of their behaviour and activities. One side is presented to outsiders, while another is presented to insiders. To overcome this, investigative participation urges researchers to shed their objective detachment and become an insider to the organisation (Adler and Adler, 1987).

Researchers are also encouraged to develop relationships with organisational members, so as to gather information and draw on members’ subjective experiences. Unlike the Chicago School, investigative participation recommends that researchers use a combination of overt and covert roles to maximise the amount and kinds of information and insight they gather (Adler and Adler, 1987). As this seemed to best describe the role which the researcher would, due to circumstances, be required to fulfil (and due as well to its methodological soundness), an approach of investigative participation was adopted.

Data on management control systems (including appropriate and detailed supporting documents and reports) were gathered by way of formal meetings with the CEO of the case study company (“Business Intelligence Company,” hereafter referred to as “BIC”), and by attendance at budgeting, strategy formulation, and quarterly strategy review meetings. The
latter meetings were attended by the full management team, comprising the CEO, the branch managers of the Cape Town and Durban branches, the national sales manager, two technical managers (one from the Johannesburg head office, and one from Cape Town), and the financial manager. Most of the formal meetings were recorded, with all relevant data being transcribed afterwards by the researcher.

Minutes of meetings, PowerPoint slide presentations, monthly management accounts, and other supporting documentation were all made available to the researcher. Management was asked to cooperate fully with the researcher, and telephonic and email queries were entertained and generally responded to promptly and comprehensively by members of the management team. Together with notes made and transcribed by the researcher, this represented a comprehensive data base of relevant material.

Apart from observation by the researcher and interviews with all members of the management team during 2006/2007, supplementary data on organisational culture was also gathered from the management team by way of e-mailed questionnaires (employing both closed and open-ended questions), followed up where necessary by telephone calls (Some of these occurred in 2011, prior to the writing-up of this report, to clarify certain issues which had not been anticipated during 2006/2007). Notes were taken of telephone conversations and were later transcribed by the researcher.

Informal interviews were held on various occasions with certain of BIC’s BI consultants, all of whom were chosen on a random basis. However, the selection was made from the population of consultants who had been with the company for at least three years. This is in line with the approach taken by Alvesson and Kärreman (2004), who note that it follows what in the ethnographic vocabulary is labelled as “studying up”: focussing, in relative terms, on experienced employees rather than those who have been more recently recruited.

An in-depth telephonic interview was also conducted with a senior BI consultant with over ten years’ experience with the company. Details of these interviews were transcribed as soon after the interviews as possible. Most of the data on culture was collected between October 2006 and March 2007, once permission to use BIC as the basis of an academic case study had been agreed with the CEO.
3.5 Data Analysis

Ferreira and Otley’s (2009) framework has been used to both present and analyse the management control and performance management data. This provides a convenient organising structure, and is also appropriate in that it simultaneously allows for a critical evaluation of the completeness of the framework. The simultaneous presentation and analysis of data is regarded as an acceptable approach in a phenomenological study, as it is often impossible to disentangle the results and the analysis (Hussey and Hussey, 1997).

Cultural data has been presented and analysed with reference to the various aspects of culture as identified in the literature (Hofstede, 1990; Ouchi, 1982; Schein, 2004), and by applying the cultural analysis techniques advocated by Johnson (1992) and Schein (2004).

3.6 Limitations of the Study

There is a danger, particularly in the early stages of data gathering, that BIC employees were trying to create an impression rather than relay the facts as they perceived them (Young, 1999). However, as BIC employees became used to the researcher’s presence over time, this effect diminished to a large extent if not completely. Also, the same data was gathered from a number of different participants over different periods of time as a means of data triangulation (Hussey and Hussey, 1997). This should have lessened the effects of any (conscious or unconscious) attempts at “impression management” (Young, 1999).

As far as the collection of cultural data is concerned, Johnson (1992) has indicated that a cultural audit undertaken with the assistance of a firm’s senior management can serve to identify the cultural paradigm within which the organisation operates. It is also implied that this is not necessarily a lengthy process.

However, Schein (2004) illustrates by way of a case study based on his consultancy experience that deeply-held assumptions do not always yield to short-term investigation. It is possible, therefore, that certain aspects of BIC’s culture were not uncovered during the research process.

In the next chapter, the data from the case study will be presented and analysed.
Chapter 4
Data Collection and Analysis

4.1 Purpose of the Study

This study seeks to determine whether socio-ideological controls, such as organisational culture, clan controls, and personnel controls should be included in Ferreira and Otley’s 2009 PMS template, designed to identify the major control and performance management issues within an organisation.

As certain elements of the management control literature suggest that Ferreira and Otley’s (2009) framework is deficient to the extent that it ignores socio-ideological controls, a case study has been conducted on a small knowledge-intensive consulting firm in South Africa. Shortcomings in the Ferreira and Otley (2009) framework with regard to socio-ideological control should become evident by:

- applying Ferreira and Otley’s (2009) framework to determine the controls and performance management systems employed by the firm;
- qualitatively assessing the socio-ideological controls applied within the firm, in the light of the findings from the social science, organisational management, and management control literature reviewed in the previous chapter.

The above-mentioned qualitative assessment should allow for the achievement of the ultimate objective of this study, i.e. a critical re-evaluation of the robustness and adequacy of Ferreira and Otley’s (2009) framework, with particular regard to its possible non-inclusion of socio-ideological controls.

4.2 Background to the Case Study

The name of the case study company in this study has been disguised, and is referred to as “BI Company” (BIC). Management and staff are referred to by acronyms which reflect their job titles.

BIC is a small South African company which provides Business Intelligence consultancy and training services. Software licence sales and annual software licence fees made up the balance of the company’s revenue streams at the time of the case study. The company was founded in 1978, and in 1983 was sold to a listed information technology (IT) company.
BIC was badly managed by its new owner, and many of the skilled staff resigned during the first two years under the new regime. In 2001 the company was purchased by a consortium of private equity investors, at which time a new Chief Executive Officer (CEO) was appointed. An experienced professional manager with many years of industry experience, CEO had to implement policies, procedures and controls at BIC, as these were generally lacking. The company was not earning an adequate return on investment, another issue which had to be addressed with some urgency. Scant attention had been paid to strategy, while staff skills and competencies were below the required levels in some areas. What is more, staff did not trust management and morale was low. CEO turned his attention to all of these issues.

In 2002 BIC’s annual turnover was in the region of R12 million. Having re-structured his management team, instituted a profit sharing and incentive scheme, put in place the appropriate (in his view) systems, procedures and controls, and strengthened his team of consultants, CEO embarked on a growth strategy.

This was based primarily on the growth of services revenues, particularly in long-term contracts, in recognition of the fact that margins on software licence sales and annual licence fees were likely to be reduced in the nearby future by BIC’s vendor. A good service reputation had in the past led to BIC consultants being regarded as trusted advisors to their customers, leading to further orders for software (with license fees to follow), and additional services and training. The growth strategy was therefore predicated upon the ongoing recruitment of high quality BI consultants, and the retention of competent BI staff currently in the company’s employ.

In 2005 BIC was purchased by a listed diversified holding company (where in 2006 the author of this study was employed as a consultant), and by the end of 2006 BIC had an annual turnover of just over R36 million and was producing healthy profits. The company was also earning a return well above its cost of capital.

By the end of 2006 BIC employed 44 staff, divided between three branches (Johannesburg, Durban and Cape Town). The company had a flat management structure – one layer of management reported to CEO (who was based in Johannesburg), comprised of the two coastal branch managers, a national sales manager, two technical managers (consulting; one each in Johannesburg and Cape Town), and a financial manager. The Cape Town technical manager was also responsible for customer and staff training, while CEO looked after marketing in addition to his role as Johannesburg branch manager and Chief Executive
Officer of the company. In 2008 BIC was sold to its management team by the holding company. CEO chose not to participate in the management buy-out and took up a senior position with the holding company.

4.3 Management Control and Performance Management Framework

As mentioned above, Ferreira and Otley’s (2009) Performance Management Framework will be used to identify BIC’s management control and performance management systems. Ferreira and Otley (2009, p. 264) refer to their framework as a performance management framework, preferring to use “the more general descriptor of performance management system (PMS) to capture a holistic approach to the management and control of organisational performance.” However, this study has separated the terms so as to distinguish, if necessary, between systems for strategy implementation (management control) and systems for strategy management (performance management).

Ferreira and Otley’s (2009) framework consists of twelve sets of questions, all of which have been applied to BIC. The full analysis, supported by answers and explanations by senior management, is presented in Appendix A of this study. Answers to two of the questions (Questions 1 and 2) are provided below, followed by an analysis of the results obtained.

These two questions in particular highlight gaps where elements of socio-ideological control have not been detected by Ferreira and Otley’s (2009) framework. However, issues pertaining to socio-ideological controls, as evidenced by responses to certain of the other ten framework questions, have where appropriate been included in the analysis below.

The level of detail provided in respect of framework answers has been based on the two case study examples provided by Ferreira and Otley (2009), whereas the analysis has been carried out with reference to the guidelines and objectives pertaining to each set of questions, as provided by Ferreira and Otley (2009).1

1 The present tense has been adopted for the analysis and discussion of framework questions. Although the events occurred some years ago, it is believed that this approach improves the readability and clarity of the text.
4.3.1 Framework Questions and BIC Management Answers:

1. What is the vision and mission of the organization and how is this brought to the attention of managers and employees? What mechanisms, processes, and networks are used to convey the organization’s overarching purposes and objectives to its members?

“BIC’s mission statement succinctly tells staff, suppliers and customers what business we are in and how we intend to meet their needs. It is displayed in reception, on screen savers and is drummed home at staff inductions, strategic reviews and briefings. We regard it as essential in communicating our mission to all stakeholders. We have worded it like a twenty-second “elevator pitch” so that staff and management can rattle it off readily if asked.” – CEO

“Our detailed vision we regard as being pertinent to senior management only. It is objective in that it gives details of where we are taking the company in terms of revenues, target markets and technologies. We don’t think our vision should be available for public consumption. Our broader vision, ‘To be South Africa’s Number One BI supplier of choice by striving for excellence in everything we do,’ is drummed home to all staff at every opportunity.” – CEO

2. What are the key factors that are believed to be central to the organization’s overall future success and how are they brought to the attention of managers and employees?

“Future success will depend on working with the management team to establish a clear vision of the future, communicating this to all staff, and putting the mechanisms in place to remind management of the agreed strategies to get us there. It is also important to have the right reward systems in place, and to make everyone aware of how they and their departments will benefit if we achieve our strategic objectives. As a management team we review our performance against strategic objectives on a quarterly basis, based on individual and team KPI’s (key performance indicators) which are linked to strategic objectives. Annual bonuses are also based on meeting KPI targets.” – CEO
“Our people are our greatest resource; having good managers and the best people we can afford in all positions is paramount to our success.” – CEO

“The ability to attract and retain the best people is what this business is all about.” – Sales Manager, Cape Town, and later Managing Director after management buy-out.

“Our graduate recruitment scheme is turning out to be a great success in terms of hiring talented youngsters and keeping them in the business. Going forward, I can see it having a very positive impact.” – BMC (Branch Manager, Cape Town).

4.3.2 Analysis of Framework Questions

Only framework questions one and two have been analysed below, as these have the greatest relevance to socio-ideological control, yet appear not to have detected certain aspects of socio-ideological control or their effect on performance management. Socio-ideological data from the BIC case study has been introduced where appropriate. In this section, references to Ferreira and Otley’s (2009) paper are, for the sake of brevity, shortened to “F&O”.

Framework Question 1:

BIC’s vision and mission statements, and the means of communicating and reinforcing them, have been addressed by management answers to this question. However, whilst not specifically mentioned in the question, it appears from F&O’s (2009) guidelines that organisational values should also be considered when addressing Question 1.

This is significant, as values which are held as shared basic assumptions form the basis of culture (Schein, 2004). The manner in which Question 1 interrogates organisational values will therefore be examined in some detail, particularly as F&O claim to have excluded culture from their framework.

Citing Collins and Porras (1996), F&O note that an organisation’s vision and mission embody core values and core purposes. In discussing the objectives of Question 1, F&O (p. 268) explain that the focus of the question is to extract information on how organisational values and purposes are established and communicated as a means of influencing the behaviour of organizational participants. F&O go on to mention that the mission may not always be conveyed via explicit mission statements, but may be communicated in less formal ways.
F&O also consider values when discussing the intention of Question 12, which addresses the strength and coherence of the links between PMS components. They note (F&O, p. 276) that: “Evidence of the importance of translating values into coherent performance measures has been shown by Jazayeri and Scapens (2008).”

In order to address the issue of BIC’s values as implied by F&O’s second question, the transcript of an interview with the Chief Executive Officer of BIC is presented below. Questions were posed by the researcher, and referred to BIC as a whole. It later transpired, though, when clarification was sought by the researcher, that CEO had answered the questions from the point of view of his experience at the JHB branch (where he also filled the role of branch manager). As will be explained later, the interpretation of core values was different at the coastal branches, resulting in different methods of management control and performance management.

An analysis of the data collected from the interview follows the response to the final interview question.

**Question 1:** Does BIC have a values statement? Or, alternatively, have specific values been identified and communicated to staff? How are values established? On a top-down basis, or via consultation with staff?

**CEO answer:** “The following is a list of the company values contained in the strategic plan: customer obsession; passion - for excellence, delivery, our products, and the company; individual respect (implying honesty, frankness, integrity); appropriate costs, systems and procedures; and innovation, which includes smart working and smart solution provision. These are communicated to all employees at the annual strategy briefing and by myself on doing the first hour of the induction for new employees. At this induction, I cover the history of the company, our strategies and values. The values were established top-down by myself when I came into the company but are reviewed annually and have changed over time – but not much.”

**Question 2:** Do the values support the attainment of strategic objectives?

**CEO answer:** “I believe that they have helped to establish a culture which does support our objective of increasing our service revenue, through becoming trusted advisors and continually striving to add value to our customers.”
Question 3: Are values re-assessed at any stage, or have core values been established and then maintained?

CEO answer: “Core values were established when I came into the company and have been maintained, with a review annually but with little change in the principles behind the stated values.”

Question 4: Is any process in place to reinforce the company’s values?

CEO answer: “This reinforcement is carried out from time to time by myself and branch managers in meetings and discussions, particularly when we are faced with challenges. Typical situations were when BIC had been overpaid by customers, delivery had not met our standards, etcetera. We would review our values and make appropriate decisions to reinforce the culture enshrined in our values.”

Question 5: What happens if a staff member or members do not behave in accordance with company values?

CEO answer: “Depending on the severity of the transgression, staff members are counselled or disciplined in line with the company’s disciplinary code.”

Question 6: Do the directors and senior management team share pretty much the same or similar values?

CEO answer: “Yes. I am fortunate in having a number of the management team who think similarly to me. Had this not been the case, I probably would have had to replace one or two so that there was greater similarity of thinking in the management team.”

Question 7: In recruiting key personnel, do you look to recruit people who seem to share BIC’s core values?

CEO answer: “Yes, apart from qualifications, we look for stable employment records, good references of customer service and an ability to get on with colleagues in particular.”

Question 8: Do you find that staff retention is better among those who share the company’s core values?

CEO answer: “Yes we do, although there have been times when large companies were targeting our consultants with large packages in a desperate attempt to secure skills. This
resulted in high turnover as we could not match these packages, despite the cultural fit of the staff members.”

**Question 9:** Do people who share the company’s core values generally perform better than those who don’t?

**CEO answer:** “Yes. They tend to have a longer term view and are more committed to both their careers and the customer, they tend to gossip less and deliver more.”

**Question 10:** Do you think it important that company directors and senior management are seen to be living the company’s values?

**CEO answer:** “Absolutely. A failure in this area causes distrust and an unravelling of the company. Having said this, too rigid an approach to all of the values is also a challenge especially in younger staff who still need mentoring.”

**Question 11:** Are there staff members who didn’t initially buy in to company values, but who have come to do so over time?

**CEO answer:** “This seldom happens and parting company sooner rather than later is essential. Such people tend to become frustrated, aggressive towards management citing micromanagement and old fashioned attitudes as detrimental to the company growth, and cause severe damage to the general harmony in the company. Younger staff do better in adapting but generally, if they do get into the company with very different values and attitudes it is hard to change them.”

**Question 12:** Do you think it is possible to change people’s values, and if so, how or under what circumstances is this possible?

**CEO answer:** “Yes, I believe it is possible if one can demonstrate consistency, and the logic and/or benefit of the espoused values to the organisation and the individual. This I have found not to be easy, requiring regular reinforcement at appropriate times and most successful in younger employees. The carrot of praise for adherence seems to work better than the stick when it comes to reinforcing values.”

### 4.3.3 Analysis of Interviewee Responses by Application of F&O’s Framework

It is evident from F&O’s discussion of values that they do not distinguish between (i) espoused values and (ii) shared basic assumptions. The guidelines provided by F&O do, however, allow for the identification of the organisation’s espoused values by interrogating
the means of establishing and communicating values intended to influence employee
behaviour, and for assessing the impact of these processes on managerial behaviour at all
levels.

If espoused values are also held as shared basic assumptions (the deeper level of values
which form the basis of culture), the application of F&O’s framework will not detect the
influence of the shared basic assumptions on behaviour, and is likely instead to attribute the
control effect to the communicated values.

Where shared basic assumptions are different from espoused values, the control effect of
the shared basic assumptions would go undetected. On the other hand, where espoused
values have not been accepted by employees and do not influence employee behaviour, the
lack of any control effect should be detected by F&O’s framework. An explanation for the
lack of any behavioural effect by the espoused values would, however, not be forthcoming.

F&O’s treatment of values is therefore valid to the extent that it allows for the detection of
espoused values (Framework Question 1), the detection of any control effect emanating
from these values, and the extent to which there is coherence between espoused values and
other aspects of the PMS (Framework Question 12).

The application of F&O’s framework does therefore allow for the identification of BIC’s core
espoused values, and for an interrogation of the manner in which they influence behaviour.
BIC’s espoused values are broad in nature, and are interpreted at the company level in much
the same way by most of the management team. They are used at a company level as the
basis of decision-making, particularly in challenging times. The way in which espoused
values are applied by the management team to deal in particular with external issues, can
best be expressed by the phrase: “Treat your customers as you would wish to be treated.”

Differences in the interpretation of the broad espoused values occur at branch level. These
flow from certain different basic assumptions held by branch managers, as mentioned in the
next paragraph. These are related to the issues emerging from Question 2 of the
framework, and will therefore be better dealt with in the analysis of the responses to this
question.

It is in the area of basic assumptions that F&O’s framework appears to have shortcomings.
As far as the methods of management control and performance management are
concerned, CEO holds different basic assumptions from those of the two coastal branch
managers. These basic assumptions are not expressed as espoused values, so are not likely
to be detected by F&O’s framework. However, these differences contribute to the formation of a different sub-culture at the Johannesburg branch compared to the coastal branches, as well as to different forms of management control. The different basic assumptions also lead to friction between CEO and the coastal branch managers, and between CEO and many of his Johannesburg Business Intelligence consultants.

Because of the interrelationship between these issues and those emerging from Question 2 of F&O’s framework, the detailed discussion thereof will be deferred to the next section. What the above-mentioned discussion has highlighted, however, is that F&O’s framework is not able to detect basic assumptions which have not been expressed as espoused values. As will be seen in the next section, this can have far-reaching implications for culture formation, management control, and performance management.

It is also possible that, because F&O do not distinguish between espoused values and shared basic assumptions, the espoused values supporting the mission may appear to have a high level of coherence with the PMS. However, this could be misleading as they may not have much influence on behaviour (because they have not been adopted by employees, and have therefore also not had the chance to become shared basic assumptions).

**Framework Question 2**

Of particular interest here are the answers by BIC management (regarding future success factors) which relate specifically to the employment and retention of competent staff. Taken in conjunction with CEO’s description of the need to align strategic targets and incentives, it is easy to interpret these answers as implying: “Employ good people and incentivise them appropriately to ensure future success.” Such an interpretation, however, overlooks the important effect of personnel and cultural controls. These will initially be discussed in a holistic manner (in recognition of their interdependence), whereafter the specific characteristics and relevance of each will be highlighted.

**CEO’s Approach to Management Control and Performance Management, and the Sub-Culture at the JHB Branch.**

(i) **CEO’s Approach to Management Control:**

It became apparent over time that CEO held a basic assumption that “if you can’t measure it, you can’t manage it.” CEO was exposed quite early in his working career to a mentor who had developed a comprehensive, integrated strategic planning and control system, based on
technocratic principles. CEO came to appreciate the value of this system, and adopted it as his own.

The management control and performance management systems implemented by CEO are based on this same quantitative, technocratic approach. CEO’s systems do not recognise that BIC’s business plan depends largely on the competence, experience, and ingenuity of its BI consultants, who must devise and implement unique solutions in a variety of different client companies. This means that, to perform effectively, consultants need to possess certain specific competencies, as well as the ability to exercise a high degree of self control or self monitoring. By overlooking the issue of self control, and by applying regular monitoring and technocratic forms of control, CEO antagonised many of the Johannesburg Business Intelligence consultants and, to a lesser extent, the Cape Town and Durban branch managers as well.

CEO’s approach to control had certain consequences, which can be understood in the light of the following quotes: (These will first be presented and then analysed)

**CEO on the problem of recruiting and retaining good BI consultants:** “It differs greatly between the coast [Durban and Cape Town] and Johannesburg. On the coast, staff look for a stable, learning environment, reasonable remuneration and regular recognition. Given that there is less competition for skills, staff tend to stay longer and leave only to pursue significant growth opportunities or overseas travel or work. In Johannesburg the same criteria are required by staff but a much greater emphasis is placed on earning and earning potential in accepting a job. Many of the consultants left for more money in the boom times when skills were short.”

**CEO on the reasons for having “Personnel” as one of his seven key strategic performance areas:** “You will see from our selection criteria that teamwork and co-operation are important to us. In addition, we have had high turnover of scarce staff at times and the cost was prohibitive. Because of this we need to impress on management the need to recruit well, start up and look after their staff well. This applies particularly to consulting staff who are mostly at the customer and if not regularly engaged with, coached, and directed by management, [underlined for emphasis] could become either delinquent, disillusioned or the “Stockholm Syndrome” could come into play. This manifests itself in their taking greater care of the customers’ needs and wants, to the detriment of BIC.”
Long-term Johannesburg consultant on CEO’s management style: “CEO is a complete control freak. But he’s also a good, fair guy. I don’t let him faze me; as long as you do your job properly you’re okay. Some people can’t take his style, though, and most of them end up leaving.”

CEO on consultants who [apparently] did not buy-in to BIC’s values: “Such people tend to become frustrated, aggressive towards management citing micromanagement and old fashioned attitudes as detrimental to the company growth, and cause severe damage to the general harmony in the company.”

CEO (in 2011) on his perception of the BIC culture during the course of his tenure as Chief Executive Officer: “High integrity, emotionally intelligent, pride in consistent solid achievement, conservative. Maybe too conservative; this is probably why innovation wasn’t as high as it could have been.”

CEO in response to the (2011) question: ‘Were there any aspects of the BIC culture you would have liked to change, or do you think the culture appropriately supported the company’s aims and objectives?’

“As with many businesses, their strategies are more evolutionary than revolutionary. I had hoped that the company would evolve into a more innovative and “cool” employment environment. Despite various attempts at management level to stimulate innovation i.e. articles, brainstorming sessions etc, this was not to be. I think that my conservative nature had something to do with this and after seven years at the helm, I believe that the business needed a different leader with fresh ideas – MD took on the Managing Director role [after the management buy-out]; he comes from a sales background, is very good with people but not so good on detailed analysis and finance - we hired a good financial manager to do this - and has taken the business from 45 staff in 2009 to 75 staff today, with a branch in Switzerland - a strategy that he put in place in 2009.”

Cape Town branch manager BMC (in 2011) on CEO’s management style: “CEO is a typical accountant. His analysis paralysis used to drive me crazy! But I have to admit he got results. He also changed the way some of us thought about the business, particularly regarding where we wanted to be in the future. That was definitely a good thing. I think he laid a solid foundation for the buy-out.”
(ii) Discussion of Johannesburg Branch Sub-Culture

While there was an element of clan control in place in the Johannesburg branch, this was not nearly as cohesive as in the two coastal branches. To employ Ouchi’s (1980), and Wilkins and Ouchi’s (1983) transaction cost theory, long-term consultants in Johannesburg appeared to have accepted that they would get something of value (i.e. acceptable remuneration and the ability to work in diverse surroundings doing interesting and challenging work), and in return would accept CEO’s controlling ways.

There might also have been elements of goal congruence present (as defined by Wilkins and Ouchi, 1983); the belief that staff members would be treated fairly in the long run in exchange for doing a good job and accepting CEO’s modus operandi. It might also be that those members who did not mind the tighter controls (the engagement, coaching and direction mentioned by CEO above) did not see them as forms of control as such, but rather as signs of management interest in their work. (This is in fact what CEO believed he was conveying, thereby helping to avoid the “Stockholm Syndrome”).

It is also possible that those who took offence at CEO’s control methods were underperforming. This may be illustrated with reference to two quotes involving General Electric’s chief executive officer Jack Welch. In 1993 Welch was quoted as saying: “The old organization was built on control, but the world has changed. The world is moving at such a pace that control has become a limitation. It slows you down. You’ve got to balance freedom with some control, but you’ve got to have more freedom than you ever dreamed of” (Welch, 1993, p. 21, as cited by Nixon and Burns, 2005, p. 260).

However, this can be contrasted with the following observation by an ex-General Electric manager regarding Welch’s management style: “If you’re doing well, you probably have more freedom than most CEO’s of publicly traded companies. But the leash gets pulled very tightly when a unit is underperforming” (Merchant and Van Der Stede, 2007, p. 225).

CEO may well have been tightening the leash on underperforming consultants, and their accusations of micro-management may simply have been a defence mechanism. It is also feasible that certain consultants were lured away from BIC by the big financial packages on offer. However, many consultants probably did leave the Johannesburg branch of BIC because CEO was employing what they perceived to be inappropriate control methods.

This is in line with the findings of Abernethy and Stoelwinder, (1995) who in a study of 91 medical professionals employed in a Melbourne hospital found that individuals with a high
professional orientation regarded output forms of control most offensive, i.e. where superiors imposed targets then measured performance against those targets. However, where self-regulatory activities were not restricted, role conflict was reduced and individual job satisfaction and overall sub-unit performance were improved.

A similar situation prevailed at Johannesburg during CEO’s time at BIC; for example, measures such as the number of billable hours per consultant, sales revenue earned per head, PBIT per head, and a productivity measure which compared employee productivity growth with annual Consumer Price Index growth, were used to evaluate individual performance. This is likely to have frustrated consultants attempting to “transform complex business rules into comprehensible visualisations, by using Business Intelligence tools to design dashboards, cubes, static reports and more in complex environments” (Senior consultant with more than 10 years’ experience with BIC at the time of the case study).

Although the same technocratic performance measures mentioned above were implemented company-wide, and had to be reported on by the other two branches as well, the branch managers at Cape Town and Durban did not rely on these quantitative targets for control purposes. This will be discussed in more detail below.

Contrasting the Sub-Cultures of the Johannesburg, Cape Town and Durban Branches

The sub-culture of the Cape Town branch stands in stark contrast to that of the Johannesburg branch. BMC explained that the Cape Town branch was established by one of BIC’s founders back in 1978. According to BMC: “He was an absolute gentleman; very polite and respectful to everyone, but also very professional and hard-working. The values that he established are still in place today.”

BMC, an ex-consultant who was employed by the founder more than twenty years ago, explained that similar values to those espoused by BIC were lived by the founder. The most significant difference was that all staff recruited were expected to be professional in their outlook and behaviour. This implied the delivery of excellent work and an adherence to the founder’s work ethic. The expectation that consultants would behave in a professional manner was based on trust rather than any attempts at supervision or evaluation against outputs; BMC noted that consultants who shared the founder’s values thrived at the company (and stayed), while those who did not “were out in no time.”

The recruitment and selection process at Cape Town was also very different from Johannesburg. At Johannesburg, CEO had drawn up a Business Intelligence Consultant Job
Description, including a list of required attributes. He then interviewed all short-listed consultants, using a structured interview process. (The short list was drawn up after candidates had been interviewed in the first instance by the Technical Manager - Consulting).

Among other things, applicants were tested for compliance with BIC’s core values. This was done by asking applicants how they had acted in the past in certain work-related situations. If candidates had not experienced these situations they were provided with hypothetical situations and asked to explain how they would react. The interview process applied was in line with accepted human resource practices, and compares favourably with other forms of selection such as cognitive ability tests (Arnold et al, 2005).

While the interview process in Johannesburg was sound, and could well have led to a good person-organisation fit (Cable and Judge, 1996, 1997) CEO admits that in certain instances, and particularly in times of high staff turnover, when demand for Business Intelligence skills was high, people who might otherwise have been rejected were in fact employed. Such employees were very seldom, if ever, a success, despite going through the normal BIC induction process.

This can be compared to the graduate recruitment scheme put in place at the Cape Town branch in 2003 to recruit future Business Intelligence consultants. (This was to facilitate the branch’s growth plans and to address the recognised looming shortage of BI skills). This scheme involves the recruitment of good (in terms of academic achievement) Honours graduates from the University of Cape Town’s Information Systems programme. Similar interviewing techniques are employed in Cape Town as in Johannesburg, but short-listed candidates are also required to complete professionally-administered personality and other psychometric tests in an attempt to ensure a good fit between Cape Town branch values and candidates’ values.

Successful candidates are then provided with classroom training on relevant Business Intelligence products, followed by on-the-job training in the company of an experienced BIC consultant who acts as a mentor to the new recruit. After being judged competent, the young graduates are given the title of Junior Consultant. They are then assigned to a practical assignment at a client company. However, in contrast to Johannesburg where it was the norm rather than the exception at the time of the case study for consultants to work alone (due mainly to efficiency issues or staff shortages), there are customarily three but
never less than two consultants assigned to a client firm in Cape Town (thereby negating the “Stockholm Syndrome” effect, but without the need for regular management interventions).

Five years after the initial graduate intake in Cape Town, all four initial appointees were still with the firm, and the retention of staff recruited via the programme remains excellent as at 2011. Over the years, graduates who have adapted and thrived at Cape Town have been used to attract new recruits; they have been asked to refer friends or colleagues to BIC. (These friends or colleagues might be at rival firms, or about to graduate from the University of Cape Town IT programme). This has ensured a constant stream of new recruits, and an even better fit in terms of Cape Town branch values and new employees.

Not only are Cape Town consultants shielded from the technocratic BIC performance evaluation process, they are also assessed in terms of their specific competencies and interests. They are then encouraged to develop their careers in these specific directions, and are provided with ongoing support and training to facilitate this. A career path allows promotion from Junior Consultant to Consultant, and then to Senior Consultant. As the company grows, or in cases of natural attrition, interested and competent Senior Consultants can move into management positions, as promotions are made from within the organisation whenever possible.

BIC’s Durban branch uses the same Business Intelligence Consultant Job Description as Johannesburg, and looks for the same attributes in consultants. Consultants are selected as much on the basis of perceived ‘fit’ with the organisation as on technical skills. Staff turnover is very low, and branch manager DBM maintains that they can afford to take their time when recruiting new candidates to ensure that they employ team players who will fit the culture. Levels of trust between management and staff are high, and Durban branch is generally regarded by consultants as a “cool” place to work.

A theme that emerges strongly from the researcher’s study of the culture of BIC is the role of trust, both as a control measure and as a means of reinforcing the culture. (Thereby supporting Ouchi’s (1979) observation that people in organisations must either be able to trust each other or closely monitor each other). One of the themes that was often referred to at BIC management meetings, and which was actually one of the strategic personnel objectives, was: “Create a culture of ‘self-employed-within-an-enabling-environment’ in all staff.” This researcher’s first impression was that this would send a dangerous message to staff, and would be counter-productive in that it would weaken any form of clan control.
However, the way in which this objective was applied (particularly in Cape Town and Durban) actually had the opposite effect. For example, based on the exercise of their own judgement and of the needs and attitudes of their clients, consultants could choose their hours of work. Also, between consultancy assignments and at other appropriate times during assignments, consultants could choose to work from home if they believed that this would be more effective. All of the branches had open-plan, ‘hot-desk’ arrangements, so that consultants could choose to work at the office between assignments, but this was left to their own discretion.

What is more, between assignments consultants were rewarded for good performance or for ‘going the extra mile’ with clients by being allowed to attend IT training programmes of their choice (all paid for by BIC). These programmes were often work-related or BI product-related, but could also be in an area of IT in which the consultant had a particular interest. All of this served to increase consultant skills, but also made them more marketable and, theoretically, more likely to leave BIC to pursue better opportunities.

However, this was very rarely if ever the case (other than in Johannesburg). This approach by BIC actually strengthened loyalty to the company, was hugely appreciated by the consultants, and therefore had a win-win effect; consultants improved their skills, while at the same time receiving the strong message that the company trusted them and had their best interests at heart. This in turn reinforced the feeling that BIC was a special place at which to work, and reinforced the culture of the clan.

In terms of artefacts, the remaining level of culture identified in this study but not yet addressed, both Johannesburg and Cape Town did make use of heroes, symbols, story-telling and simple rituals to reinforce values and culture. For example, shortly after taking over as Chief Executive Officer of BIC, in the face of a looming financial crisis CEO volunteered to take a pay cut and asked senior managers to do the same. This was negotiated on the basis of increased incentives for performance achievement, and against an agreed timescale. As CEO explains, this was greeted with unhappiness and some scepticism, as managers had been let down by the previous owners in respect of similar profit sharing schemes. However, CEO managed to get agreement, and within a year a substantial financial recovery had been achieved (due more to good fortune than management effort, according to CEO). However, bonuses were duly paid in strict accordance with the agreement, and CEO gained considerable credibility as a result. When later incentive schemes were discussed and
negotiated, CEO was invariably mentioned by the managers concerned as the ‘hero’ who had put in place and honoured the first incentive scheme. This story became part of BIC’s culture, and served to reinforce the values of integrity and respect for individuals.

Other company stories included the refund of a large client overpayment (which could easily have been avoided), because it was in line with BIC’s values, and the waiving of a charge of R140 000 for billable work carried out for a client but attributable to errors in the Business Intelligence software (which BIC implemented under licence). As a direct consequence of this latter action, the client concerned placed a large order with BIC some ten months later. These became part of the ‘folklore’ which was passed on to each generation of new consultants.

BMC has also noted that stories dating back to the founder’s time are still told in the Cape Town branch to this day, and further serve to reinforce the culture and the sense of being a “special company.” Rituals in Cape Town include an obligatory get-together for all staff on Friday afternoons, for a short informal meeting accompanied by drinks and snacks. All branches celebrate the achievement of sales targets or the gaining of a new client with champagne or pizzas, and regular staff barbecues (which include family members and partners of single staff) are held to celebrate successes.

Symbols used to reinforce the culture included the displaying of the company mission statement in branch reception areas, and on personal computer screen-savers. The mission statement is referred to regularly; in meetings, and at induction sessions for new staff members. Along with the other artefacts mentioned above, this does appear to reinforce the cultural web at BIC’s branches (Johnson, 1992).

4.4 Overview of Findings

In an introduction to the article in which he expounds his Levers of Control framework, Simons (1995) observes that managers in organisations which operate in dynamic and highly competitive markets cannot spend most of their time supervising subordinates. Nor, as he says, “is it realistic to think that managers can achieve control by simply hiring good people, aligning incentives, and hoping for the best” (Simons, 1995, p. 80).

It is submitted that in the case study company, CEO at the Johannesburg branch did in fact subscribe to the view that employing good people, then setting challenging targets and incentivising his managers and staff accordingly, was the way to achieve strategic goals. This
is clearly expressed in the CEO quotes addressed to the future success of BIC (Framework Question 2 per F&O, page 53 of this study).

Upon reflection, Simons’ (1995) statement may contain a half-truth; it is possible that hiring good people and aligning incentives might be effective, but only in conjunction with cultural controls. This will be illustrated in the discussion which follows.

It is the recognition of the role of culture in facilitating control that highlights yet another of the weaknesses of F&O’s framework. If the answers to Question 2 of F&O’s framework are taken at face value, the conclusion might well be that the success enjoyed by BIC, and the potential future success, was dependent upon appropriate goals, competent people, and incentives designed to encourage the achievement of those goals.

However, it is suggested that to take this view is to miss the effect of cultural (i.e. clan) controls, as well as the important supplementary effect of the personnel controls which support them. This is not to negate entirely the effect of formal controls; however, as will be demonstrated, the major and most important forms of control in BIC were cultural and personnel controls.

This conclusion can be based on the different results achieved by the coastal branches compared to those realised by the Johannesburg branch, and on the means by which those results were achieved. It was apparent that BIC’s espoused values and the deeply-held beliefs of the senior management team were quite well aligned. However, what was different was, in certain instances, the way in which those beliefs were translated into behaviours.

This highlights, perhaps, a danger inherent in generalised espoused beliefs such as dignity, integrity and so on. To CEO, applying formal output-based controls to consultants did not violate the company’s “individual respect” value; however, to the people being managed in this way it did, signalling mistrust and a lack of acknowledgement of their ability to do the right thing when not being closely monitored.

It is pertinent in this regard to note the findings of Jazayeri and Scapens (2008), who investigated a five-year culture change programme at BAE, a UK aerospace company. To effect a change in culture, the company’s top 130 managers identified five categories of core values which were regarded to be essential to the company’s future success. These values were then translated into appropriate performance measures (both financial and non-financial) by way of a ‘values scorecard’.

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At the outset fewer than ten measures were included on the scorecard, but as the managers used the scorecard it was over time expanded to incorporate some 70 or 80 measures. It was believed that the scorecard became more accurate and meaningful as understanding grew. In the same way, BIC might have benefited from looking more closely and in greater detail at the behaviours required by their more generic values. By doing so, and by questioning the assumptions of various managers, CEO may well have come to see his management style in a different light.

As things stood, the managers of the coastal branches experienced frustration as a result of CEO’s formal controls, but could largely ignore them once back at their own branches. Durban produced relatively better financial results than the Johannesburg branch, whereas Cape Town outdid the Johannesburg branch both in relative and absolute terms. This relieved the coastal branches of any performance pressure, and as a result the coastal branch managers could continue to use what they considered to be appropriate control measures, with CEO’s formal controls being regarded simply as a means of providing a ‘scorecard’ on a quarterly basis. To his credit, and in line with the ‘individual respect’ value, CEO did not interfere in the running of the coastal branches.

It is submitted that clan controls (strongly supported by personnel controls) were employed by both the Durban and Cape Town branches, and that the other aspects of culture i.e. values and artefacts also contributed to BIC’s control efforts. The Cape Town branch will now be used to illustrate the use of values, clan controls, artefacts and personnel controls.

If one considers the aforementioned descriptions of the circumstances, practices, and procedures in place at the Cape Town branch, it can be seen that these correspond largely to the prerequisite conditions required (per the literature) for the formation of a clan culture, i.e.:

- A strict screening and selection process, to improve the likelihood that people with the same values and orientations as the organisation are employed (Ouchi, 1979);
- Reasonably long membership and reasonably stable membership of the organisation (Wilkins and Ouchi, 1983);
- A strong and shared claim of uniqueness (Wilkins and Ouchi, 1983);
- The telling of shared stories that illustrate and legitimise a common management philosophy (Wilkins and Ouchi, 1983).
At Cape Town, values established by the founder and passed down via employees who had worked with the founder (e.g. BMC) still guided decisions at the branch. Considering the timescale involved, the founder’s values were now, in respect of senior staff members, likely to be deeply held convictions. They were used as the basis of selecting new members of staff, and were reinforced as the correct way to behave (Schein, 2004).

Personnel controls (i.e. those controls which serve to clarify the organisation’s expectations, to help ensure that each employee has all of the capabilities and resources necessary to do a good job, and to increase the likelihood that each employee will engage in self-monitoring (Merchant and Van Der Stede, 2007)) were implemented by way of selection and screening, mentoring, training, performance reviews, promotion from within, and identifying particular aptitudes and abilities and supporting the development of these.

Cultural artefacts which helped to reinforce the clan culture included shared stories, rituals (as described previously), and symbols (such as public displays of vision and mission statements, personal displays of same by way of PC screen-savers, and values statements as part of induction programmes) (Johnson, 1992; Ouchi, 2004).

Research carried out subsequent to Wilkins and Ouchi (1983) supports the screening and selection effect on clan formation. The findings that firms select employees on the basis of shared perceived values (Cable and Judge, 1996), and that candidates select firms on the same basis (Cable and Judge, 1997), will have improved the cohesiveness of the clan.

While the Cape Town branch has been used as an example, clan culture and controls appeared to be in place at Durban as well, for much the same reasons. Only in Johannesburg, as outlined before, was the clan effect likely to have been absent or very much weaker. As far as BIC as an organisation was concerned, it is difficult to speak of an overriding culture. However, the espoused values (which in terms of many of the values may well have been held as shared basic assumptions as well) did act as an over-arching framework which guided important decisions.

This case study has gone some way towards answering the research question regarding the desirability of culture as a control variable being included in the F&O framework. The case study has also addressed the issues of clan control and personnel control, with evidence from the study corroborating the findings from the literature in terms of clan formation and clan culture, and supporting the contention that personnel controls have an important facilitative role to play in the formation and cohesiveness of the clan.
The findings from the case study support the notion that clan culture results in employees exercising a positive form of self-control in support of organisational goals and objectives. It has also been observed that clan culture is in turn supported and reinforced by values, artefacts and personnel controls. Furthermore, case study findings support those from the literature which suggest that clan or cultural control is appropriate in knowledge-intensive firms such as BIC (Ouchi, 1979; Alvesson and Kärreman, 2004; Ditillo, 2004), that formal, output based controls may be counter-productive and even harmful under certain circumstances (Abernethy and Stoelwinder, 1995), and that sub-cultures are possible even in small organisations (Alvesson and Sveningsson, 2008).

The case study findings also suggest that the use of technocratic controls in conjunction with clan controls may be of some benefit, if used judiciously. Goals and objectives based on quantitative, technocratic controls served to reinforce strategic growth objectives, whereas measures such as billable hours worked by consultants served as a reminder that a balance had to be maintained between creativity and innovation on the one hand, and an acceptable level of profitability on the other. This confirms the findings of Alvesson and Kärreman (2004) who noted that technocratic controls, employed by a knowledge-intensive firm in support of clan controls, drew attention to certain dimensions and also framed consciousness in a particular way.

4.4.1 Implications of the Findings for Ferreira and Otley’s (2009) Framework

F&O do not exclude any organisational types from analysis via their framework, saying only that their framework should highlight control issues in for-profit and not-for-profit organisations. As such, the framework should in principle be able to identify the main control methods employed by a knowledge-intensive firm such as BIC.

However, by ignoring personnel controls, clan controls and shared basic assumptions (other than those expressed as espoused values which have been adopted by employees), F&O’s framework does not adequately address many of the control issues emerging from the case study. In fact, by highlighting the technocratic controls employed by BIC and ignoring the effects of the personnel and clan controls, the framework presents an inaccurate representation of the controls within BIC. This supports the contention of Chenhall (2003, p. 131): “Thus, if specific accounting controls are systematically linked with other organizational controls, studies that exclude or do not control for these elements within the research method may report spurious findings.”
4.4.2 The Ability of Suggested Enhancements to Address the Shortcomings in Ferreira and Otley's (2009) Framework

In the same edition of the journal *Management Accounting Research* in which Ferreira and Otley (2009) published their performance management and control framework, Broadbent and Laughlin (2009) published a paper which suggested certain enhancements to F&O’s framework\(^2\). Ferreira and Otley (2009) did not incorporate Broadbent and Laughlin’s (2007) suggestions into their framework, but in their discussion of Question 10 of their framework F&O (p. 275) acknowledge that the work is valuable from the perspective of their framework. They also note Broadbent and Laughlin’s (2007) findings that culture has a significant effect on PMS design.

This raises the following question: If incorporated into F&O’s framework, would Broadbent and Laughlin’s proposed changes address the shortcomings in F&O’s framework identified in this research study? To answer this question, and thereby help to address Objective four of this study (the robustness and adequacy of F&O’s framework), Broadbent and Laughlin (2009) will be analysed and evaluated.

Broadbent and Laughlin (2009) have, in a conceptual paper, suggested an enhancement to F&O’s framework which allows for performance management systems to be categorised along a given continuum. The continuum measures the extent to which means-end relationships governed by performance management systems can be determined. As mentioned previously, the literature reviewed so far suggests that clan or cultural forms of control are more appropriate where means-ends relationships are not clear.


\(^2\) F&O refer in their 2009 paper to Broadbent and Laughlin’s 2007 working paper, which was developed into the 2009 article mentioned above. And, when Broadbent and Laughlin (2007) suggested enhancements to F&O’s performance management and control framework, they were referring to the framework originally set out in Ferreira and Otley’s (2005) working paper (which proposed a framework which was virtually identical to the 2009 version). In further discussions, the 2009 versions of both F&O’s and Broadbent and Laughlin’s work will be referred to. This will allow for the finalised versions of both papers to be critiqued.
It is possible that the claims made by Berry et al (2009) and F&O (2009) are valid, when suggesting that Broadbent and Laughlin’s (2007) enhancements relate to the identification of cultural control. If so, this would go some if not all of the way towards addressing the shortcomings identified by this study, regarding the inability of F&O’s framework to identify cultural and clan controls. The validity of these claims will therefore be examined.

Broadbent and Laughlin (2009, p. 293) suggest that all performance management systems can be placed on a “continuum of conceptual possibilities, from ‘transactional’ to ‘relational’”. Transactional PMSs are those regulating clear means/end relationships, whereas relational PMSs are characterised by means/end relationships which are not clear. In the case of relational situations, the resulting performance management systems will be negotiated by participants/stakeholders who would discursively agree the choice of means to pursue agreed ends. “The expectation is that the ends and means are deliberately subject to a discourse between the stakeholders and chosen by them” (Broadbent and Laughlin, 2009, p. 289).

Broadbent and Laughlin (2009, p. 289) provide the following example of a relational performance management system: “An example might involve the bringing together of a number of engineers to analyse and resolve an engineering concern where the outcomes and the ways these are defined and achieved are subject to discursive negotiation and agreement.”

It is apparent that Broadbent and Laughlin’s (2009) relational performance management system might involve a high degree of informal interaction between participants, but the resultant control may not necessarily be cultural in nature and does not depend upon the same pre-conditions necessary for clan formation. In that means and ends can be identified and agreed, albeit by discursive negotiation, Broadbent and Laughlin’s example falls well short of the situation found in most knowledge-intensive firms, where means-end relationships are tenuous at best.

For example, in the BIC case study on which this dissertation is based, consultants had to manage the tension between the need to achieve company financial goals, and the need to satisfy client needs for appropriate Business Intelligence systems. In this instance two different and often competing ends had to be intuitively and creatively met by consultants, a requirement that could only be achieved via the self-control and collaborative effort facilitated by a clan culture.
It is possible in the example provided by Broadbent and Laughlin (2009) that a clan-type culture could develop among the team of engineers over time, if the members of the team remained much the same and if the other pre-conditions for clan formation were met. However, if the existing culture of the organisation rewarded individual efforts rather than teamwork, the efforts of the team could be hampered, and the negotiation of a working relationship might prove to be a difficult undertaking.

It is submitted that the additional insights provided by Broadbent and Laughlin (2009) do address the important issue of control in situations where means-ends relationships are not clear. However, they fall short of providing a complete solution by ignoring the existing culture of the organisation, by failing to consider the clan mechanism, and by neglecting to consider the more extreme end of the transactional/relational continuum, where means-ends relationships are tenuous at best.

4.5 Conclusion

The findings from the case study confirm that Ferreira and Otley’s (2009) framework is deficient to the extent that it cannot identify a number of socio-ideological controls. The findings also raise the concern that, by highlighting the technocratic controls employed by an organisation and ignoring the socio-ideological controls, the framework would under certain circumstances present an inaccurate representation of an organisation’s overall “bundle of controls” (Malmi and Brown, 2008).

An analysis of Broadbent and Laughlin (2009), said to address the cultural aspects of control in F&O’s framework, reveals that the conceptual changes suggested will help to identify organisational situations where low means-end relationships exist. However, Broadbent and Laughlin (2009) do not suggest that such situations may be an indicator of the presence of cultural or other socio-ideological controls, nor do they provide guidance as to how such controls might function or how they might be detected.

In the next chapter, the extent to which the aims and objectives of the study have been met will be discussed, and conclusions will be drawn. Limitations of the study will be addressed, and suggestions for further research will be presented.
Chapter 5

Conclusions

5.1 Research Aims, Objectives and Research Question

This study set out to investigate whether socio-ideological controls, such as organisational culture, clan controls, and personnel controls should be included in Ferreira and Otley’s (2009) PMS template, designed to identify the major control and performance management issues within an organisation.

To this end, the following objectives were established:

- To identify and assess, with reference to the relevant literature, those socio-ideological controls which can make a positive contribution to management control and performance management in organisations.

- To evaluate the technocratic and socio-ideological management controls employed by a small South African consulting firm, using Ferreira and Otley’s (2009) performance management framework and the insights into socio-ideological control obtained from the literature review.

- To re-assess the robustness and adequacy of Ferreira and Otley’s (2009) framework, based on the results of the above two objectives.

The first objective was achieved in Chapter 2 of the study, and the second objective in Chapter 4. Conclusions which can be drawn from the attainment of the first two objectives will now be discussed, which will allow for the robustness and adequacy of Ferreira and Otley’s (2009) framework to be assessed. This will address the third objective, and will also provide an answer to the research question:

“Should Ferreira and Otley’s (2009) performance management framework be expanded to include socio-ideological controls as an aspect of management control and performance management?"

Finally, the broader implications of the findings of this study will be considered, limitations of the study will be addressed, and suggestions for further research will be presented.
5.2 An Assessment of Ferreira and Otley’s (2009) Framework: Conclusions Drawn from the Study

The literature review identified two broad categories of socio-ideological controls, namely cultural controls (comprising artefacts, values, and clan control), and personnel controls. Both the literature review and the case study which form the basis of this research, suggest that cultural and personnel controls can contribute towards management control and performance management efforts in organisations. The manner in which they do so and the implications for Ferreira and Otley’s (2009) framework will now be discussed. Suggested changes or additions to Ferreira and Otley’s (2009) framework will be addressed in each section, where relevant.

5.2.1 Values and Clan Controls

Although Ferreira and Otley (2009) (hereinafter referred to as F&O) chose to exclude cultural controls from their evaluative framework, they did consider the ability of values to influence behaviour. In doing so they did not seem to appreciate that values, when held as shared basic assumptions, actually constitute the deepest level of culture.

It appears that F&O’s framework addresses espoused values, those values that organisations say they hold but may not actually adhere to. Espoused values will not have a control effect if employees do not accept them, but can influence behaviour if employees see that they work and therefore adopt them. However, only once they have been seen to work regularly over a long period of time will they become shared basic assumptions and therefore part of the culture.

Because F&O do not seem to appreciate the difference between espoused values and shared basic assumptions, their framework will at times detect a control effect from values and at other times not. This is misleading, confusing, and an undesirable state of affairs. This suggests that F&O’s framework should consider not just espoused values but shared basic assumptions as well, i.e. the values constituting the organisation’s culture.

As far as clan culture is concerned, the conceptual literature spells out the circumstances under which clan formation is most likely, and also provides a rational explanation for the collaborative effort and self-control exhibited by members of a clan. Empirical evidence of clan control was presented, and was also provided in the BIC case study. Both the literature and the case study indicate that clan control is likely to be the most appropriate form of control in knowledge-intensive firms. The literature also suggests that, in organisations or
sub-units of organisations with high ambiguity, i.e. where means-ends relationships are not well understood, clan or cultural controls are likely to be more appropriate than market or bureaucratic forms of control.

By applying F&O’s framework to the case study company, it was shown that the framework could not detect the manifestations of control which are typical of a clan-type culture. As F&O’s framework is intended to identify control issues in all types of for-profit and not-for-profit organisations, the inability of the framework to recognise clan control is another noteworthy shortcoming.

Suggested amendments to F&O’s framework as proposed by Broadbent and Laughlin (2009) were evaluated, as these were said to address the cultural aspects of control omitted from F&O’s framework (Berry et al, 2009). It was found that Broadbent and Laughlin’s (2009) conceptual model allows for the identification of situations where means-end relationships are not clear, but the solutions proposed do not suggest cultural control and do not address the inability of F&O’s framework to identify cultural or clan controls.

The recommendation therefore is that F&O build upon Broadbent and Laughlin’s (2009) proposals, and where the F&O framework identifies situations where means-end relationships are not well understood, the possible existence of clan controls should be investigated.

5.2.2 Artefacts and Personnel Controls

The consensus view of artefacts and personnel controls which emerges from the literature is that they do not exert a direct control effect, but tend instead to facilitate cultural control and self control. Artefacts, which include symbols, heroes, and rituals, represent the visible expression of culture. They can assist in the understanding of culture, and via a change of artefacts help to support efforts to change the cultural paradigm. Other writers on cultural change propose the employment of those artefacts which will help to forge new behaviours.

F&O’s framework does not explicitly address artefacts, yet does make mention of vision and mission statements. These are not considered to be visible expressions of culture as such, but rather by way of their content to provide an indication of the organisation’s values.

Influential writers on culture such as Johnson (1992) and Schein (2004) (per Hughes, 2010) believe that control systems and performance management systems are in fact cultural artefacts, emerging from a consensus view of how the organisation should best respond to
its external environment. Management control systems may therefore be chosen on the basis of management’s shared basic assumptions, i.e. of the organisation’s culture. A thorough understanding of the organisation’s cultural paradigm may therefore be necessary before the choice of control systems can be understood.

It is evident both from the literature and the case study findings that personnel controls can facilitate the development of a clan culture, by helping to achieve a better person-organisation fit when recruiting staff. By recruiting staff with similar values to those of the organisation, retention rates improve and clan control is strengthened.

Regarding personnel controls, F&O’s framework does recognise performance evaluation processes, but in the context of performance management rather than the facilitation of cultural control. Performance evaluation is also regarded by F&O as a critical nexus in control activities rather than as a form of personnel control.

It is clear from the literature that the identification of artefacts and the understanding of their meanings to members of the organisation are essential in deciphering an organisation’s culture. Recognising the personnel controls employed by an organisation will also help in understanding its culture, and in appreciating why the culture facilitates self-control. For this reason it is suggested that F&O’s framework should look to identify both artefacts and personnel controls.

5.3 Limitations of the Study

There are certain potential limitations pertaining to the case study data collected for this study. There is a danger, for instance, particularly in the early stages of data gathering, that BIC employees were trying to create an impression rather than relay the facts as they perceived them (Young, 1999). However, as BIC employees became used to the researcher’s presence over time, this effect diminished to a large extent if not completely. Also, the same data was gathered from a number of different participants over different periods of time as a means of data triangulation (Hussey and Hussey, 1997). This should have lessened the effects of any (conscious or unconscious) attempts at “impression management” (Young, 1999).

As far as the collection of cultural data is concerned, Johnson (1992) has indicated that a cultural audit undertaken with the assistance of a firm’s senior management can serve to
identify the cultural paradigm within which the organisation operates. It is also implied that this is not necessarily a lengthy process.

However, Schein (2004) points out that deeply-held assumptions do not always yield to short-term investigation. It is possible, therefore, that certain aspects of BIC’s culture were not uncovered during the research process.

This study also has limitations in terms of the type and size of organisation studied, i.e. a small, knowledge-intensive firm operating in a service industry. This may limit the findings to firms of the same type, or to sub-units of larger firms which exhibit the same characteristics. Future studies which examine the effects of socio-ideological controls in larger firms in a variety of different industries are therefore recommended so as to overcome these limitations.

5.4 Wider Implications of the Study

The review of the culture and other social science literature has highlighted certain issues which should be of concern to management control researchers:

- Management accounting researchers should adopt a comprehensive and consistent view of culture, which embraces all levels of culture. At present the word ‘culture’ is bandied about too loosely at times, and in a number of cases it is apparent that the nature of cultural control, clan control and personnel control has been misunderstood.

- In the experience of this researcher, most management control papers which refer to clan control cite Ouchi’s 1979 and/or 1980 papers. However, it is evident that Ouchi had only crystallised his thinking on clans some years later (e.g. Wilkins and Ouchi, 1983), and that his earlier conception of clan control appears to have identified an effect, but had not yet presented a plausible cause or causes for this effect. This may have influenced the way in which clan controls have been understood, and the extent to which they have been accepted, in the management accounting literature.

- Of some significance is the possibility that clan controls may be prevalent in modern, heterogeneous firms, and not just in knowledge-intensive firms and other clan-type
organisations. This argument is presented in some detail on pages 31 to 33 of this study.

- The literature suggests that the strength of an organisation’s cultural paradigm can make strategic change difficult, particularly if the necessary change requires a “paradigm shift” (Johnson, 1992). This does not appear to have been acknowledged in performance management models such as the balanced scorecard, which might create the impression that strategic change is easier to achieve than might at times be the case.

- The cultural paradigm is the ‘lens’ through which the organisation views the competitive landscape, and is the basis on which the organisation responds to opportunities and threats. Assumptions regarding the implementation of strategy (and therefore the choice of controls) are also likely to be influenced by the cultural paradigm, and it may therefore be necessary to first understand the cultural paradigm before the organisation’s “bundle of controls” can properly be understood.

- Finally, the contingency theory of control suggests that certain contextual variables have an impact on control systems design and use. However, the contingency theory literature has not recognised that in many cases, (e.g. the external environment, strategy, organisational structure, ownership structure) it may not be the effect of the contingent variable as such that should be considered, but the effect of management’s view of that variable, as filtered through the ‘lens’ of the organisation’s cultural paradigm.

5.5 Suggestions for Further Research

- Ferreira and Otley’s (2009) framework should be expanded to include the interrogation of socio-ideological controls as set out above. The expanded framework should then be tested in a variety of organisations, using a single case study approach.

- Researchers should investigate the possibility that the cultural paradigm frames the choice of management control and performance management systems. Furthermore, when examining the effect of the cultural paradigm on management control systems and performance management systems design, it is not only a
question of what should be researched, but also of how this research should be conducted. It is likely that multi-disciplinary research teams, comprised of management accountants and social scientists, would come up with a better understanding of cultural and other socio-ideological control issues than if the research were to be conducted by management accountants only.

- The possibility that organisations other than knowledge-intensive firms are using clan controls should be investigated, particularly in firms which have to deal with high levels of environmental and/or technological change. It is possible that, to survive in these environments, firms have to rely on bright capable employees who can exercise a high degree of self-control, which can be facilitated by clan-type cultures.

- Research indicates that technocratic controls can at times be used to advantage in conjunction with socio-ideological controls. However, the injudicious use of technocratic controls can be offensive to professional knowledge-workers, and can under these circumstances be counter-productive. The most effective means of combining technocratic and socio-ideological controls should therefore be investigated.

5.6 Concluding Remarks

A multi-disciplinary review of the literature on cultural control, clan controls and personnel controls, and the application of Ferreira and Otley’s (2009) framework to a small knowledge-intensive firm, has highlighted the following:

(i) F&O’s framework is robust to the extent that it is able to identify the technocratic controls employed by an organisation.

(ii) F&O’s framework is deficient to the extent that it ignores the above-mentioned socio-ideological forms of control.

In this post-industrial age, characterised by globalisation, the diffusion of new technologies, and pervasive non-linear change, many management control researchers are questioning the validity of the current management control framework (Nixon and Burns, 2005). This study supports the view that socio-ideological forms of control have been ignored for too long by the majority of management accounting researchers, and that these control forms may well have an important role to play in any new performance management and control framework.
References


Appendix A

Framework Questions and BIC Management Responses

1. What is the vision and mission of the organization and how is this brought to the attention of managers and employees? What mechanisms, processes, and networks are used to convey the organization’s overarching purposes and objectives to its members?

“BIC’s mission statement succinctly tells staff, suppliers and customers what business we are in and how we intend to meet their needs. It is displayed in reception, on screen savers and is drummed home at staff inductions, strategic reviews and briefings. We regard it as essential in communicating our mission to all stakeholders. We have worded it like a twenty-second “elevator pitch” so that staff and management can rattle it off readily if asked.” – CEO

“Our detailed vision we regard as being pertinent to senior management only. It is objective in that it gives details of where we are taking the company in terms of revenues, target markets and technologies. We don’t think our vision should be available for public consumption. Our broader vision, ‘To be South Africa’s Number One BI supplier of choice by striving for excellence in everything we do,’ is drummed home to all staff at every opportunity.” – CEO

This question also requires the identification of the organisation’s core values, as well as the methods (both formal and informal) by which they are communicated to employees. The answer to this question is comprehensive, and has been covered in detail in chapter 4 of this study.

2. What are the key factors that are believed to be central to the organization’s overall future success and how are they brought to the attention of managers and employees?

“Future success will depend on working with the management team to establish a clear vision of the future, communicating this to all staff, and putting the mechanisms in place to remind management of the agreed strategies to get us there. It is also important to have the right reward systems in place, and to make everyone aware of
how they and their departments will benefit if we achieve our strategic objectives. As a management team we review our performance against strategic objectives on a quarterly basis, based on individual and team KPI’s (key performance indicators) which are linked to strategic objectives. Annual bonuses are also based on meeting KPI targets.” – CEO

“Our people are our greatest resource; having good managers and the best people we can afford in all positions is paramount to our success.” – CEO

“The ability to attract and retain the best people is what this business is all about.” – Sales Manager, Cape Town, and later Managing Director after management buy-out.

“Our graduate recruitment scheme is turning out to be a great success in terms of hiring talented youngsters and keeping them in the business. Going forward, I can see it having a very positive impact.” – Branch Manager, Cape Town.

3. What is the organization structure and what impact does it have on the design and use of performance management systems (PMSs)? How does it influence and how is it influenced by the strategic management process?

BIC has branches in three major centres – Johannesburg, Cape Town and Durban. In this way it is able to serve the major markets in South Africa. The Johannesburg branch serves as the Head Office, where the CEO is also the branch manager. The branch structure does not have a significant effect on performance management systems; as BIC uses common BI tools, common KPIs and a common reporting format, information can be easily compared and consolidated. Electronic and telephonic communication between branches is conducted on a daily basis.

4. What strategies and plans has the organization adopted and what are the processes and activities that it has decided will be required for it to ensure its success? How are strategies and plans adapted, generated and communicated to managers and employees?
BIC adopts a differentiation strategy, based on the good reputation of its BI software product, its record of excellent service delivery to large and small customers, and the national coverage possible from its three branches. BIC’s ability to provide solid customer references across many industries (compared to their newer competitors) is seen as a strong selling point.

The strategic plan is compiled after a consultative process involving all members of the management team, and incorporates an agreed ‘stretch’ element for each branch (at the time of the case study, BIC was pursuing a market growth strategy).

Strategic objectives are set in the following areas:

- Financial
- Marketing
- Innovation
- Operational
- Quality
- Personnel
- Broad-based black economic empowerment

Annual budgets (prepared by each branch manager) represent the first year of the strategic plan, and all management incentives are based on KPIs derived from the strategic objectives. Progress against strategic objectives is measured quarterly.

Strategic objectives are communicated to staff annually via briefing sessions held at each branch. Monthly results are also presented to branch staff.

5. What are the organization’s key performance measures deriving from its objectives, key success factors, and strategies and plans? How are these specified and communicated and what role do they play in performance evaluation? Are there significant omissions?

As set out in the answers to Question 4, objectives are set in seven key areas of the business, with a number of key performance indicators being established for each objective. These are communicated on an annual, quarterly and monthly basis, as appropriate. These objectives are linked directly to the key success factors and to the
strategic plan. Most objectives and KPIs are quantitative in nature, although a customer satisfaction survey was conducted by an independent consultancy.

6. What level of performance does the organization need to achieve for each of its key performance measures (identified in the above question), how does it go about setting appropriate performance targets for them, and how challenging are those performance targets?

“A review of past performance, going back a good few years, is essential in identifying the level of financial performance we can target, both as being reasonable and including a stretch to ensure growth. In addition, one also looks to external listed competitors in the same industry to get an idea of GM, PBT as a percentage of sales, and what their growth in revenues have been like.

Over time and with experience one refines these, based on an understanding of what the market can bear and one’s own internal costs. Strategic objectives are based on past performance, external reviews and one’s own experience. They will differ for each industry and whether one is in a commodity or high growth niche, for example. World class performance is generally considered to be a consistent 10% real year-on-year growth – greater when small and in a high growth niche, and less when in a mature industry. In IT this is what I strive for. Management need to apply their minds and make a judgement call in setting these objectives.” – CEO

“In setting targets, I try to use logic to judge what is reasonably achievable, make that the 75% level, with 70% being the minimum standard acceptable and 100% being the stretch target. There is some logic involved, but all forecasts are one’s best guess based on the information at hand coupled with experience.” – CEO

Input from branch managers on targets is received by CEO, but the final decision regarding targets is made by him.

7. What processes, if any, does the organization follow for evaluating individual, group, and organizational performance? Are performance evaluations primarily objective, subjective or mixed and how important are formal and informal information and controls in these processes?
“With individuals we use a formal performance appraisal, during which we review the individual’s performance and mutually set objective goals which are in line with the company strategic plans (including the budget). Such goals include personal and team development goals so that all staff have an element of personal growth to keep them sharp. Group and organisational performance are evaluated at the quarterly strategic review on the basis of the company’s and branches’ performance against the strategy/budgets.” – CEO

“I have always tried to set objective measurements and keep the subjectivity out of the measurement. Having BI tools makes this significantly easier than it would be without these. Without information it is very difficult to objectively measure people, groups, and the company’s performance as a whole. Without objective measures in place, managers at all levels tend to avoid confrontation and tend not to be firm on evaluating or providing honest feedback on poor and under par performance. Objective measures therefore tend to drive a higher level of strategic achievement” – CEO

“Informal feedback needs to be provided on an ongoing basis to remind management particularly of the strategies in place and that the leader is serious about evaluating and rewarding performance based on results, not just the perception of hard work. I have found that both management and staff will get demotivated if one overdoes the information flow and references to the strategy, staff more so as they have less of the bigger picture understanding. This is where encouragement of the individual staff member, positive recognition and such are essential in order to achieve the performance needed to achieve group or company objectives.” – CEO

8. **What rewards — financial and/or non-financial — will managers and other employees gain by achieving performance targets or other assessed aspects of performance (or, conversely, what penalties will they suffer by failing to achieve them)?**

“The main drivers of business success are the management and as such they are largely financially rewarded at the year-end based on profits as well as KPI achievement. In addition, management were given access to purchase a few shares (20% of the equity) and enjoy dividends.
Some non-financial rewards are provided to high performing employees in the form of access to further product training and particular types of work experience. This is an area where other incentives such as time to work with fellow staff on CSI [corporate social investment] projects have been considered but not put into place.

There is a group reward system in the form of a thirteenth cheque for all staff following the audit if the business meets its PBT budget. This does not apply to sales persons, who earn commission on sales at varying percentages depending on the strategic importance of the sales, e.g. new licence sales earned.” – CEO

9. What specific information flows — feedback and feed-forward —, systems and networks has the organization in place to support the operation of its PMSs?

BI tools produce reports which give feedback on budget variances and KPIs on a monthly basis (although performance against KPIs is formally addressed on a quarterly basis). Feedforward information derived formally from the annual SWOT and PESTEL analyses, and from sales managers obtaining knowledge of competitor activity on an ongoing basis in the course of canvassing for new business, and even from liaising with existing clients.

E-mail facilitates communication throughout the company, and with consultants at clients’ premises. Informal feedback received from consultants at Friday afternoon drinks and snacks (when all consultants are required to report back to their branches).

10. What type of use is made of information and of the various control mechanisms in place? Can these uses be characterised in terms of various typologies in the literature? How do controls and their uses differ at different hierarchical levels?

Most formal control systems are used diagnostically, with (apart from the SWOT and PESTEL analyses) only the informal information flows being used interactively.
11. How have the PMSs altered in the light of the change dynamics of the organization and its environment? Have the changes in PMSs design or use been made in a proactive or reactive manner?

Although demand for BI products was high and the market was growing, this did not necessitate a change in PMSs which remained stable.

12. How strong and coherent are the links between the components of PMSs and the ways in which they are used (as denoted by the above 11 questions)?

There is a theoretical link between strategy and operations, with strategic objectives supposedly being operationalised via KPIs. However, the achievement of most KPIs is dependent on self control initiatives by BI consultants (facilitated by clan controls), so that KPIs cannot be acted upon directly. Financial incentives drive performance for management and sales staff, but BI consultants have little influence over their incentive bonuses (13th cheques based on achieving budgeted PBT targets). Non-financial rewards for BI staff are subjectively determined. There is a low level of interactive use of formal systems, but this is compensated for by the use of informal systems.

Espoused company values form part of the strategic planning cycle, and are intended to guide the behaviours by which strategy is operationalised. However, there are clashes between certain of the deeply held assumptions of the CEO and the branch managers, which serve to undermine the strategic effort to some extent. This effect cannot be detected by Ferreira and Otley’s framework questions – See Chapter 4 for a detailed discussion of these issues.