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## **Book Review: Effective Management Control; Theory and Practice by Eric G. Flamholtz**

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**Reviewed by:** Muhammad Ashar Asdullah, University of Salford, Manchester, UK & Hassan Yazdifar, Bournemouth University, UK

Eric Flamholtz is a renowned professor and one of the top Management consultant. He received PhD from Michigan in 1969 and won the McKinsey Foundation dissertation award. He authored/co-authored several books including “Human Resource Accounting” that is recognized as landmark work in this field. He is also a President of Systems Management consulting corporation that helps different firms achieving sustainable success through organizational management. He is also lecturing numerous executive courses to top-level managers all over the world. His book *Effective Management Control is considered significant for prospective researchers in the field*. It also serves as a guide to industry/firm managers to deploy management control strategies. *Effective Management Control* sheds light on a relatively misunderstood and neglected aspect of organizational effectiveness. It critically analyzes the process of controlling people’s behavior in any organization. The issue of the design of an optimal control system and organizational control is considered to be significant for an organization’s long-term effectiveness. The author argued that a weak control leads to chaos and confusion; whereas great control can cause erosion of entrepreneurship and innovation. A conceptual framework has been provided by this monograph for approaching as well as addressing different issues and problems while examining the role which is played by accounting in a successful and effective control system. Today’s contemporary organizations are lined with uncertainty, ambiguity, and complexity making it imperative to unveil how different types of control can be combined and complemented to understand the

outcomes of control (McGrath, 2014; Dougherty, 2017). What seems to be ignored in this monograph was the holistic view of control in organizations where it is impossible to ignore the holistic approach while combining control for a better outcome as contemporary organizations are striving to be more diverse and sustainable. Lately, the control philosophy of the organizations has shifted its focus towards a rather organic control system which considers the behavior of employees influenced as a result of control (Frow, Marginson, & Ogden, 2010). Thus, what motivated me is, to analyze the framework of control from the lens of a more holistic approach whereby the outcome is also an employee's sense of fulfillment (Gill, 2019) as a result of different combinations of control in an organization. Therefore, it was important to critically review this book in the light of contemporary issues that organizations are facing or they have to face in the future. I also found the control modes useful in altering the behavior of employees but it is needful to change the perspective in line with the employee's wellbeing under different control modes. The purpose of this review is to critically analyze the components of organizational control system presented by Flamholtz and to validate what gaps might have been existing in the integrated framework of a control system by Flamholtz in the light of contemporary research. The current review also reflects on the suitability of the framework of a control system by Flamholtz in the 21<sup>st</sup> century business organizations characterized by uncertainty and constant change.

In this book, the author's main goal is working towards comprehending the role, nature, functioning, and elements of control systems and organizational control in organizations. The author embarked upon positing and discussing the core control system's features and its basic parts which include measurement, planning, evaluation, feedback, and reward sub-systems. The book also highlights the ways through which the control system operates within a larger organizational culture and structure. The research illustrated theory via its application to a specific case study. The integrated framework of Flamholtz also covers key themes of control literature predominantly role and nature of control system in the organization, organizational structure, culture, Human

Resources practices, planning as well as the role of accounting system in formal control of an organization.

The first chapter of this book starts with the role and nature of organizational control. The author contends that a combination of techniques is used by enterprises to gain control over people's behavior in a formal organization. This combination includes personal rules, supervision, job descriptions, standard operating procedures, performance evaluation systems, accounting measurements, budgets, and accounting measurements. Taken together, the combination of techniques is part of a real system. Although control is considered to be a significant component of the system (mechanical or human), management control has not been widely examined and discussed by researchers and academicians as compared to other management processes. Particularly, we do not have a detailed conceptual framework to comprehend, visualize, and assess control issues. According to the author, the concept of control has been viewed by many researchers as an ongoing process. Control cannot be considered static, but dynamic. Therefore, there is always a need to adjust it to changes gradually. Although various control techniques can be found, but there are some essential components of this control process that intend to proliferate the goal congruence's degree. However, it will look at it from a practical point of view to get to know that the control system's objective is to increase the chances that people will act in a different manner, that are considered in line with the goals of an organization. It is not guaranteed by any system that it is going to happen all the time, which ultimately means that the control system is not deterministic but probabilistic. The author considered organizational control as a process designed to support as well as motivate people for achieving organizational objectives; to have a great impact on the probability that people will behave in a certain manner, but cannot give any guarantee that people will always behave in a certain manner. Although, the author clearly depicted that using combination techniques of control might be useful as it yields different results in different organizations but one cannot deny the diverse consequences of such combinations which might arouse resistance and issues of compliance from employees. Gill (2019) suggested that the diversity of the

consequences leads the employees to deal with resistance and compliance with the control techniques according to their coherence and compatibility. He proposed four ideal types of interactions that employees can embrace to bring the best out of the control modes i.e. complementing, coexisting, competing, and clashing. Gill (2019) further posits that organizational control can be powerful when employees are willing to accept the different combinations of control which not only supports their self-fulfillment but also overpower their resistance.

The second chapter of this book presents a framework to understand the organizational control's nature while exploring the 3 basic parts of an organizational control system: 1) The core control system, 2) The structure of an organization and 3) The culture of an organization. The core control system comprises of various "components": feedback and measurement sub-system, planning sub-system, evaluation sub-system, as well as reward sub-system. In the feedback, the control system's output is measured as well as compared to the input signal. The controller uses the deviation, which is called error, between the two that sends output that the error of the system is zero. Signal Feedback Systems process signals. Ouchi (1979) and Kirsch (1996) also argued that the controller does not have to understand the process of transforming inputs into output to implement output control. Rather, the most important element is to identify the performance objectives and allocate rewards accordingly among the controlees depending on the extent to which they have accomplished these objectives (Turner & Makhija, 2006). On the one hand, instituting reward processes is the duty of organizations; while on the other hand, they also need to evaluate whether the reward processes are effective or not. To put it differently, it is highly important for organizations to evaluate constantly whether the purpose is being served by the reward processes or not. He further contended that reward processes' evaluation could be done from the organization's point of view as well, which means that market-rate surveys can be conducted by organizations instead of asking employees with reference to the reward processes' adequacy. In addition to this, the organization can also play an

important role in the engaging consulting process to evaluate/assess reward processes.

The third chapter deals with the role of planning in control. All the plans are developed by many organizations, but not all organizations are successful in their implementation. Organizations develop plans but they don't work over them to be a meaningful management tool, because issues and problems occur due to the planet system in an organization that is believed to be independent of the control system of the organization. The author highlighted the need for understanding and evaluating the relationship between control and planning while arguing that this relationship serves as a vehicle to make implementation successful as organizational' plans. In management, although controlling and planning are regarded to be two completely different functions, but it cannot be denied that both functions are closely related to each other. Without the planning's basis, all the controlling activities are considered to be baseless, and planning without controlling becomes a baseless and meaningless exercise. No purposed plan can be served by any organization in the absence of control. Therefore, controlling and planning reinforce each other. The contemporary research has however criticized the past research on considering the management control system as a static phenomenon that can be planned and implemented. Otley and Soim (2014) posit that the classic understanding of the control system in an organization is based on the assumption that control is unchanging like the external environment. However, the past literature on the management control system has not considered that environment is highly dynamic which also affects the trends of the management control system, and thus, it must be planned considering the uncertainty of the external environment (Otley, 2016).

Moving on further, Flamholtz discussed feedback, evaluation, reward system reflecting each component of the control system comprehensively in the form of chapters. However, when it comes to the role of measurement and feedback, Flamholtz has only emphasized on the formal core control system from the lens of cybernetic theory, yet the past control literature has highlighted that using a formal system does not facilitate completion of

relevant information generation (e.g. Mintzberg, 1975; Preston, 1986) the integrated model of the control system presented by Flamholtz lacks the informal system of feedback and evaluation and thus has been considered as an underreached phenomenon (Karlsson & Lukka, 2010). However, there are some other research studies in the literature of management accounting which have introduced theoretical frameworks which have recognized the relationship between the formal and informal control system of organizations. For instance, Burns and Scapens (2000) discussed the interplay between formal and informal control systems from the perspective of organizational rules and routines. In the same manner, Simons (1995) and later on Tuomela (2005) shed light on the levers of control i.e. diagnostic and interactive control along with beliefs and boundary systems to explain the interdependence between formal and informal control.

Chapter seven of this book deals with the role of organizational culture and structure in control. Roles in any organization refer to the seats or jobs occupied by people as per their qualification. Roles can also be considered a set of behavioral requirements or choices that are supposed to be performed by individuals working in that particular business. The structure of the organization plays an important role in control since it refers to the arrangements and job models that comprise an organization. Therefore, the structure's two major elements are as follows: 1) roles and 2) their relationship with each other.

While discussing factors that influence the roles' structures, the author argued that the organization's size has a great impact on it. There is always a need for a high level of management when the large numbers of people get involved in any organization in order to achieve control and correlation. The writer contended that various particular functions are performed by specialists when the business expands, which ultimately has a direct impact on the structures of roles. In addition to this, another factor that plays an important role in influencing the structures of the role is strategic management decision which is related to the degree of self-control (or autonomy) that organization should allow its people to run the business regularly. And such decisions clearly show that whether the structure of the organisation is 'decentralized' or 'centralized'.

On the contrary, some research studies argued that control exercised in an organization to a level where it affects the perceived control tends to bring positive employees' outcomes in the form of commitment, satisfaction, motivation, less job stress and a decline in physical and mental exertion of the employees (Spector, 1986). Extant research studies have also proclaimed that organizational control brings positive outcomes in the form of employee's trust (Weibel et al., 2016)

Chapter 8 of this book investigated the role of the accounting system of the firm as a control system. He argued that accounting is expected to be a control system, and it is impossible for it to function independently being a control system. Therefore, there is always a need to connect it with the entire control system's other parts, so that it can perform its function effectively as well as effectively as a control mechanism. According to the author, it is true that accounting performs its function being a control system, but what is important to be done by any organization in order to make it the organizational controls' effective system is decentralization since the individuals on a higher position in any firm persist changes, whereas power can be mobilized to facilitate each and every member, which enhances the accounting system's role in any organization as its control system. Despite the emergence of the formal and informal instruments in the control management i.e. training and employee's selection, budget, performance measurement systems, corporate policies and codes of conduct (Collier, 2005; Merchant & Otley, 2006), the past research studies in the field of management accounting and control has put emphasis only on the individual control mechanism from the perspective of accounting-based control (Widener, 2007).

The monograph's final chapter deals with all the issues of designs that hinder the effectiveness of a control system in an organization. For any organization, it was concluded by the author that an effective control system is highly critical. Very little or less control always leads a firm to the chaos which in turn fails. The author gives an example of Osborn computers and contends that the reason behind the bankruptcy was the lack of an effective control system over its manufacturing costs and finance. If there is too much control in any organization, it ultimately leads to a great



suppression of entrepreneurship and innovation. For long-term organizational effectiveness, the optimal control system's design and organizational control are highly important. Katzenbach and Smith (2015) have also pointed out that, it is important for the organizations to adjust the structure as it not only influences employee's commitment towards the continuous improvement through the accomplishment of related organizational goals

Therefore, it can be argued that this study's basic objectives and goals are to take some concrete steps towards a detailed and comprehensive framework's development for comprehending, designing as well as managing the control system. Overall, this book makes a positive contribution to the field but the only issue in this book is that the author has discussed generalized issues that might not be used in specialized kind of organizations. This monograph can be considered a hybrid of a text and a treatise that is intended to management students, researchers, and practicing managers. However, the critical review of the integrated framework of a control system by Flamholtz will make some significant addition to the already existing body of control literature. It also provides direction to future researchers to recognize the informal control system as per the changing business environment. Thus, findings of this review can act as a guideline to the researchers to further investigate the control systems from a holistic perspective which is the biggest gap in the old control literature.

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