



## **THE GROWING ROLE OF INFORMAL CONTROLS: DOES ORGANIZATION LEARNING EMPOWER OR SUBJUGATE WORKERS?**

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Several management theorists have called for organizations to incorporate organization learning, empowerment, open-book management, and similar initiatives to generate better value from an important strategic resource: employees. What does this mean for the controlled? Do extensions of the management control system's ability to implement the strategy of the firm offer workers a more central role in creating their future? Or is this "progress" just another means to extract extra effort from workers for the benefit of owners?

This paper is developed in two parts. The first argues that seeking better value from workers is here to stay, and that the implications for management control system bear consideration. In particular, the five disciplines of Senge's (1990) Organization Learning are introduced to illustrate growing ways informal controls enhance workers' knowledge contributions. The second half of the paper examines implications of this increasing control. Some argue that it is naive to expect organization learning will lead managers to willingly realign existing lopsided rewards. However, as a natural response to change, these controls are themselves dynamic and evolutionary. This paper suggests that the growing dependence on employee's superior knowledge recalibrates power arrangements. Further there is a growing awareness that many managers' self-interest is mitigated by their sense of fairness. Consequently, an increasingly shared authority combined with the self-reflection and transparency of organization learning raises the possibility of an environment where those who perform the work share more equally in its rewards.

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As competitors become increasingly adept at replicating, reshaping, or eliminating the traditional ways of conducting business, firms seek ever new ways to turn resources to competitive advantage (Barney, 1991; Hamel & Prahalad, 1994). The strategy literature views the individual and collective efforts of a knowledgeable workforce as a critical competitive resource (see, for example, Wernerfelt, 1984).

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In fact, de Geus (1988) argues that learning is the only sustainable competitive advantage. Recent business authors (e.g. Hamel & Prahalad, 1994; Brown & Eisenhardt, 1998; Petzinger, 1999) report that in response to competitive challenges, organizational hierarchies with command and control management styles are giving way to self-organizing teams and employee autonomy. Management consultants (e.g. Senge, 1990; Handy, 1994; Goleman, 1998) have suggested several initiatives organization might implement to enhance employee knowledge, consequently improving competitiveness.

Terms like organization learning, empowerment, and open-book management share a common objective of increasing the decision making and strategic participation of employees. Senge (1990) argues such initiatives are attempts to create "generative learning", that extra effort of a collection of individuals to adjust to far-reaching and unprecedented business changes. The management control system (MCS) coordinates individual behaviour in the service of organizational goals (Otley, 1994; Simons, 1995). Viewing employees as sources of knowledge central to an organization's ability to survive and flourish under uncertainty has implications for MCS design. The first objective of this paper is to briefly review the growing entrenchment of informal controls and then to provide some specific examples of an MCS infrastructure that supports employee initiative and thus enhances generative organization learning.

Cynics suggest that too many of the benefits from individuals adaptive efforts are hijacked, and rewards accrue disproportionately to senior managers (Foucault, 1979; Kojeve (see Drury, 1994); Dillard *et al.*, 2000). In contrast, this paper argues that the current attention to individuals is survival driven and, thus dynamic. To meet or exceed competition, firms draw on employees' knowledge of customers and initiative. This adaptation is an inherent component of the survival strategies living systems naturally exhibit (Maturana & Varela, 1987). Adaptive learning by the individuals and groups within an organization alters the system's structure. The emphasis on employee knowledge suggests a shift in the balance of power away from the manager. With the need to acquire and retain knowledgeable employees comes greater parity in relationships. Philosophical, behavioural, and economic theories of empowerment and fairness describe increased parity in work choices (Habermas, 1984; MacIntyre, 1984; Senge, 1990) and in reward sharing (Rabin, 1993; Fehr & Schmidt, 1999). Successful adaptation means that the parts of the system have co-evolved. Combined with the transparency inherent in Organization Learning's self-reflection and the impact of fairness on the part of at least some wage setters, this co-evolving may make it increasingly difficult to protect senior managers' excessive share of the power and rewards.

The remainder of this paper is organized as follows. The first part of the paper makes the case for the growing role of informal controls. Arguments for knowledgeable workers as a source of organizational competitiveness and the permanency of learning initiatives are reviewed. Then, implications for MCS are explored using one management initiative, Organization Learning (Senge, 1990) as an example of MCS informal controls. The second half of the paper examines the possible outcomes of this extended control. On the one hand, persuasive arguments can be made that the growing role of informal control in MCSs is one

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