

2009



ME2028

HOMEWORK ASSIGNMENT IN BEHAVIOR
MANAGEMENT CONTROL

Ulrika Sjöström

1. How could each of the control problems at Leo's Four-Plex Theater be solved with the use of Cultural control?

Cultural control is a sort of *mutual monitoring* where *group pressure* forms the behavior of the group. It is said to be extra strong if the members have *emotional ties* to one other. Cultures evolve from shared traditions, norms, beliefs, values, ideologies, attitudes and ways of behaving and can be either written or unwritten rules. Two methods are said to be the most efficient ones in affecting the behavior; codes of conduct and group reward. Other methods are intraorganizational transfers, physical and social arrangements, and tone at the top.¹

At Leo's Four Plex Theater all three kinds of problems exist: Lack of direction, lack of/wrong motivation and personal limitations. They appear in the following problems:

Problem	Solution
Less cash than tickets sold.	Group reward + Intraorganizational transfer
Not cash for all refreshments sold.	Group reward+ Intraorganizational transfer
Tickets of wrong color/date in the stub boxes.	Group reward+ Intraorganizational transfer
Manager gives away too much free entrance tickets.	Proper tone at the top
Friends to ticket collectors go in for free.	Codes of conduct

Clearly the motivation of the employees is low and the main reason why so many problems exist. *Codes of conduct* are necessary, especially in this case, to make it clear what kind of behavior is accepted and expected. They are, so to speak, part of the solution to all the problems as they serve as a base for the general behavior wanted. They will particularly help the problem of friends to ticket collectors entering for free as they create adherence to ethical principle. Of course letting in for free is not admitted and thus not ethical.

The manager himself should first of all stop giving out too many free tickets. He serves as a role model and if his behavior is not consistent with the rules, neither will the behavior of his employees be. Thus a *proper tone at the top* is needed, which does not only include the manager acting in accordance to the rules but also stating the type of culture he wants to create. The manager should therefore talk to his employees about the problems, the consequences and the ethics of the company.

Group rewards will make all employees eager that their co-workers really fulfill their duties and thus mutual monitoring will hopefully reduce the problems such as giving refreshments for free, letting in friends and not collecting enough cash for the tickets. Group rewards have proven to motivate and increase performance. I think it is very important to make the employees feel like they are in a team together rather than creating an unpleasant monitoring atmosphere; after all it is young and inexperienced people working at Leo's Four Plex Theater.

Another method that would help in many ways is *intraorganizational transfers*. This because it help the employees understand the problems arising in the different areas and how these are correlated with prior carelessness. Neither would they get too familiar with the activities which could prevent both misconduct and boredom. In addition intraorganizational transferring makes group rewards more suitable as all employees are responsible for all activities at the cinema.

¹ Management Control Systems, KA Merchant & W A van der Stede, Second Edition, p.85

2. What Personal & Cultural Controls do Armco use, and what Personal & Cultural Controls could they use?

To begin with, Armco seems to use very little personal and cultural control which I believe could help them a lot. Some advantages of using personal and cultural controls include low costs, obtrusiveness and the fact that they seldom lead to negative side effects.²

At the moment they are to some extent using personal control while providing necessary resources, in this case information, to the managers so that they will better understand how actions relate to implementation. The information is limited so that the managers will focus on the right figures and thus have the chance to succeed. Furthermore one could say that they also use cultural control as plant purchasing, manufacturing and commercial managers share the accountability for inventory performance which evokes mutual monitoring.

On the other hand, a list of what they could do, can be made long. At first, it is mentioned in the case that there are individual cash incentive rewards and that there is a remaining issue about how much that should be bonus and fixed salary. Instead I believe introducing *group-based rewards*, a kind of cultural control, could help both motivation and also encourage teamwork³ which I believe is important in a company that has gone through big reductions.

Another personal control is *physical arrangement* which, among other things include architecture and the office's interior design and decorations and social arrangements such as dress codes and dinners. In this case, mainly due to major reductions, the plant designed to hold five thousand employees only hold about one thousand; moreover the buildings are spread across a big area. Despite that this is very costly I also believe that it creates a feeling of emptiness and decline among the personnel which really is not motivating. Armco is in need to be a connected whole, thus gathering the personnel in as few buildings as possible would increase the solidarity. Finally I really think some kinds of social arrangements would be stimulating to further increase the solidarity and the feeling that it is going well for the company.

Nothing is mentioned about *training* (personal control) in the case but I believe that one solution to the remaining issue of the evaluation of managers is to train them. Part of the issue is that some factors are uncontrollable. This is an issue that Armco can't evade but bear in mind when evaluating. Still I believe it is both fair to the managers to get training, in that way you give them a chance to become better without only gaining experience through mistakes. It also makes it easier to evaluate if the managers are doing a good job, i.e. becoming better / doing less mistakes.

Even though the evaluations of the managers are not perfectly formulated I believe it is an important tool. Should it be clear that a manager is not capable of doing his or her job replacement could be an alternative. *Selection and placement* are factors indeed relevant to the company. Putting the wrong man at the wrong position is very costly. Further most people become much more motivated when they feel that they can handle the situation which also speaks in favor of replacing wrong-positioned people.

Finally it is of course of utter weight to have well *designed jobs* and to *provide the employees with necessary resources*, this to allow the employees to succeed and thus increase their motivation.

² Management Control Systems, KA Merchant & W A van der Stede, Second Edition, p. 92

³ Ibid, p. 89

3. Give and explain examples on how Sands/Bellagio could use non-financial result controls to improve business performance? Start from an identification of the key success factors (KSF) of a casino.

The aim of result control is to make people take responsibility for their work and increase their performance. Maybe the most important factor of result controls effectiveness is *congruence*. The controls should mirror the company's true objectives; which is easier said than done.⁴

For a casino there are several KSF, some varying as a result of which clientele the casino is aiming for. For example real high end gamers will look for exclusiveness while game addicted probably won't. The following KSF are based on the fact that the Bellagio is operating in the high end segment.

Key Success factors



For a result control system to work properly some conditions must be prevalent: *knowledge of desired results, ability to influence desired results* (controllability) and *the ability to measure controllable results effectively*. The last mentioned involve some criteria for the measures to be effective. Besides congruence which was mentioned earlier, also *precision, objectivity, timeliness and understandability* are included.⁵

The KSFs tell us about the desired results and I have classified those under three keywords. Quality includes several areas of importance. To start with, it is of utter importance that the casino attracts high end players who are willing to spend a lot of money, involving profit for the casino. To investigate how successful the company is in attracting these customers is simply to *evaluate* the customers "playing/spending habits". This can easily be done if each player is required to use some sort of playing account. The use of evaluations will also be

⁴ Ibid p. 119

⁵ Ibid p. 32-35

suitable when it comes to perception of environment, variation of the services and the interior design/environment, though this requires the customers to fill out the evaluations. The evaluations can be summarized as *customer satisfaction*.

The second keyword is personnel, this because the success of the company all depends on its employees. For the employees in contact with customers it is important to establish good relations, the customer shall want to come back. To control this, the company could measure complaints which should be at a minimum. Further they could measure the number of players and the number of plays by each player that each dealer has served. Also the personnel in the non-operating area have to make a good job. As the accountants deals with a very extensive and complex company they have to be very skilled. This could be measured in recorded flaws. With this kind of business also a lot of liability follows and it is important to measure that laws etc. are being followed. Thus misdemeanor should be recorded.

Finally the approach of the company is important not least for their reputation. The customers must feel secure and rely on the casino. It is of course also important to the casino that no robberies or employee theft occur as it will imply losses. Thus the security must be high. This can be measured in number of attempted robberies, succeeded robberies and employee attempts of misdemeanor.

To go back to what was earlier mentioned regarding the criteria of result measures the suggested measures mostly agree. Timeliness agrees as these measures can be made on a day to day basis with direct results. Understandable agrees because they are based on the daily performed work. One could argue that the use of evaluations is neither completely objective nor precise. Of course not every single player can participate but this is always the case of evaluations. If not using a too small selection, I believe evaluations will still emphasize the fundamentals.

4. What planning recommendations would you give to the CEO of Zumwald AG?

My guiding principle for this company is to use all kind of planning that involves communication between the divisions as the lack of it is, according to me, the main reason for their conflict.

The company is highly decentralized and each manager has a high autonomy. There is a strong emphasis on meeting the division's budget targets which are a type of financial targets generated from the financial results control systems. Planning is also an important element of financial results control systems. Planning, often in written form, specifies goals, strategies and performance targets. In this way the planning becomes targets that affect the motivation of managers as they are linked to performance evaluation and oftentimes different incentives. Planning can be made in various ways; the effectiveness of it depends on the situation. Planning also forces the managers to think about the future and thus decrease the risk of myopia, this can be said to be a great form of action control. Another purpose of planning is that it broadens the communication. Different parts of the organization needs to exchange information and this enhances the chance that decisions made, are in favor of all perspectives.

In other words planning increases *coordination* and this is why planning is important for Zumwald. Further purposes of planning are *top management oversight* and *motivation*.⁶

There are three subsections in the so called planning cycles: *strategic planning*, *capital budgeting* and *operational budgeting*. Where the two first mentioned will be discussed as I believe they could help Zumwald.

Strategic planning often involves the division managers who are the best informed in their areas respectively. As the course literature puts it: *The process provides a framework for the more detailed planning that takes place in the following cycles*.⁷ Thus it is important that the division managers are involved already here, in an early stage of the planning, as it still is possible to have an influence on the planning. This planning part involves thinking about the organizations *missions*, *objectives* and *strategies*, which I also believe is important for broadening the managers understanding for the other divisions requirements.

Capital budgeting is a process where specific action programs or projects, intended to be realized, are identified and also the resources needed. Usually, the process begins with the division managers discussing the contents. It is important for the managers to argue well to get the resources they need which might not only be a good thing as it could result in an uneven distribution. Though I believe you can require from the managers to be skilled enough to argue in favor of their division. That is to say, also this process helps to increase discussions and thus communication.⁸

Further, *performance target setting* is important. Closely observing what is working well and what is not, i.e. comparing the outcome of the performance with plans, often generates discussion. Thus it improves the coordination within the organization as it result in intra-organizational communication. These targets can be set in a number of ways, and for this company I would recommend *negotiated performance targets*. This because all information is not accessible to all the managers why the sharing of information generates better understanding of other entities.⁹

The pros and cons will have to be weighed up carefully when deciding on how challenging the performance targets should be. Motivation is positively influenced when performance targets are challenging but reachable. But the company could earn greater profits if high set targets are reached. Achieving set goals is psychologically important, too many managers it is the proof of being successful or not. In the case of Zumwald, the managers argue because they all want to reach their respectively goals which do not coincide. Therefore setting goals that are reachable is preferable as it would decrease the risk of similar events in the future but also because the cost of *interventions of superiors* decrease and also the risk of *gameplaying*.¹⁰

In summary I think it is important to let the managers have influence on setting the financial targets as it partly increases the *commitment of achieving* them but mainly because of discussions leading to *information sharing* about business possibilities, corporate preferences and resources.¹¹

⁶ Ibid p.330

⁷ Ibid p.331

⁸ Ibid p.331-332

⁹ Ibid p.332-334

¹⁰ Ibid p.335-338

¹¹ Ibid p.340

Finally it would be good to use *planning guidance* to ensure that everyone does it in the same way leading to better overview which results in better understandability¹².

5. In what respects are the department managers at AirTex subject to tight control? In what respects are they loosely controlled? Both questions regard the situation after Frank and Ted's takeover.

The reason for using a management control system (MCS) is to increase the likelihood of the desired objectives to be fulfilled. The higher the likelihood of employees acting in accordance to the organizations wishes, the tighter the control system is.¹³ Tight control can be applied to both result, action and cultural/personnel control. The last mentioned will not be discussed here as the main use of it is in non-profit organizations and small family-run companies.¹⁴

Tight result control

Result controls yield good control while still giving the employees high autonomy.¹⁵ Tight result control depends on several factors. *The result dimensions must be congruent with the "true" organizational objective; performance targets must be specific and, with feedback in short time increments; the desired results must be effectively communicated and internalized by those whose behavior are being controlled.*¹⁶

Further the measures of tight result control must excel in being *precise, objective, timely and understandable*.

Finally, if *rewards* and *punishments* are linked to the result control system it is likely to also be tighter.

Tight action control

An action control system is considered tight if the likelihood of employees engaging in desired actions, to fulfill the operation's success, occurs without fail.¹⁷ Tight action control can include; *behavior constraints*, which can be *administrative* or *physical*; *praction reviews* and *action accountability*. The last mentioned resembles tight results control a lot. For example the tracking of action must be *congruent, precise, objective, timely and understandable*.

AirTex

In general, the introduced control system is a loose action control system as it shall only help to provide information to facilitate decision making. In AirTex the authority is decentralized. Each department manager has its own authority over operations including granting of credit, purchasing to a predetermined limit, setting policies, and collecting receivables.¹⁸ This is definitely a kind of loose control. As an example, tight praction reviews would mean that buying even small things would need an OK before it's done; managers are not empowered to

¹² Ibid p.334-335

¹³ Ibid p.118

¹⁴ Ibid p.126

¹⁵ Ibid p.35

¹⁶ Ibid p.118-119

¹⁷ Ibid p.122

¹⁸ Ibid p.241

make decisions on their own. In this case, when the manager of the fuel department, asked if he could get a copier Ted answered: “*You can do anything you want within the limitations of the PO*”¹⁹. Ted and Frank wanted a control system where the department managers make their own decisions, partly because they cannot make all the decisions themselves. They neither have the time nor the knowledge. The control system is a framework that does not limit actions but gives fast feedback so they can be sure of being on the right track and to increase incentives to succeed. This is why the action control is not tight.

On the other hand, The Task Guidance System including the Daily Department Report, is an example of tight action control. It serves educating and awareness purposes for the manager but it also forces them to account for the daily activities. It is also very detailed. In other words, it is specific (detailed) and timely (day-to-day-basis) and generates specific actions (daily accounting).

Tight result control is also being used. Each department manager is responsible for profit (or loss) and receives a bonus of 10% of their profit center profits after administrative allocation. This is obviously a significant reward linked to performance for the employees which they want to reach thus making the result control tight.

To motivate the department managers to handle cash, their accounts receivable, they were given credit granting authority and responsibility for collections. Monthly charges dependent on how fast or slow they were managing the receivables. This is also a tight action control, more specifically a tight *action accountability control*. There is a direct and definite link to the action, if not handled fast a punishment set in. It is; objective, rate per cent is set to number of days that have passed; understandable for the managers; congruent as the company of course wants its money as soon as possible.

Finally an Administration Profit Center was established. It took care of general administrative charges in exchange for some monthly charges to the departments. This should be a predictable way of cost allocation and facilitate for the managers. This type of action control is called *administrative behavioral constraints* aiming to let more skilled persons handle what otherwise could lead to less reliable decisions by the managers.

6. Evaluate the different types of rewards and punishments currently used in Tsinghua Tongfang.

One of the top three principles of effective management is organizational rewards, i.e. incentive systems. Incentive systems play an important role as they call employees attention to desired results and, nevertheless, motivate them to achieve and/or exceed them. Rewards can take many different forms but are something that the employees value while punishments are not. Punishments can simply be the not forthcoming of rewards.²⁰ Rewards do not need to be only of monetary character. Nonmonetary rewards, such as praise, titles, and time off, are often regarded to be of greater value and can sometimes involve a smaller cost for the company.²¹ For an incentive system to really be motivating some criteria are important to fulfill²²:

¹⁹ Ibid p.244

²⁰ Ibid p.393

²¹ Ibid p.394

²² Ibid p.403-404

- ✓ *Value* – the reward shall in some way be valued by the employee; it varies from person to person what kind of reward that is mostly valued.
- ✓ *Impact* – the reward shall be of enough importance to have impact otherwise the reward can be counterproductive, e.g. insult someone.
- ✓ *Understandable* – i.e. the employee shall both understand reason for and value of the reward.
- ✓ *Timely* – the reward shall not be delayed as the motivational effect then tends to diminish.
- ✓ *Durable* – the longer the employee remembers the reward the better.
- ✓ *Reversible* – some rewards can be wrongly set and thus needs to be reversible.
- ✓ *Cost efficient* – for the company it is better if the rewards cost as little as possible but still motivate.

At Tsinghua Tongfang following rewards and punishments were used:

Rewards	Punishments
<ul style="list-style-type: none">• Before the stock was listed all employees, on the basis of organizational position, got shares of the stock.• Salary increases based on the semiannual performance.• Discretionary bonus• Performance-dependent bonus• Star employee, excellent employee	<ul style="list-style-type: none">• If negative cash flows six months in a row the subsidiary company would be denied further loans and had to finance itself• Embarrassing to get low points in evaluation• Not getting bonus

The first reward listed could also be seen as a gift from the company as it was something that everyone got or it could be seen as a group reward though the book does not tell us why it was given. Another guess could be that the company wants their employees to be loyal to company. Employees only benefit when the stakeholders do.²³

The second one is salary increase which is often regarded to be of significant *value* as it does not just happen one single time.²⁴ All organizations use salary increase partly because it shall adjust to the always increasing costs of living.²⁵ In this case the increase is based on performance. The case does not tell us how big or small the increase is but hopefully big enough to make an *impact*. Otherwise the result of it could be negative. As this reward is based on the performance evaluation system the fact if it is *understandable* could be discussed. According to me this kind of system has a potential of being biased and subjective

²³ Ibid p.398

²⁴ Ibid p.396

²⁵ Ibid p.396

which might lead to the employee not understanding why the evaluation was not better, consequently neither the performance based salary increase would be understandable. If the employees do not trust the evaluation they could be a breeding ground for demotivation and frustration²⁶. Further salary increases are practically *irreversible* and as this reward is depending on evaluations that might be biased this is not something I would recommend. Speaking in favor of subjectivity is that they can take care of extraordinary events.

The discretionary bonus has a several weakness, the biggest one being that it is almost taken for granted, which makes it less *valuable* to the employees. The fact that it is discretionary probably will decrease the *understandability*. Finally it is hardly a *durable* reward; something taken for granted is not “special enough” for employees to remember it for a long time.

The performance dependent bonus is based on ROI and excess profit. The targets are set to be challenging but achievable which is important to, for example, avoid gameplaying. Most subsidiaries operate in very uncertain markets why gameplaying could be tempting to managers if they feel that they cannot perform well enough due to market fluctuations. Finally it could be good with an upper cutoff to avoid whims of fate and to avoid managers from taking exaggerated actions.²⁷

The last reward is also the lone one with contents of non-monetary character like study opportunities. This kind of rewards has great potential to be highly *valued* by employees. I can only refer to myself being rewarded because of “good spirit of comradeship”. The reward was partly monetary and partly a diploma. The diploma still hangs on my wall reminding me and making me feel proud, the money I got – I do not even remember what I did with them. In other words, I highly value the reward and the non-monetary part was durable. Though it is, to some extent, understandable why Tsinghua Tongfang mainly uses monetary rewards as money often is a proof of success and maybe even proof of status and power.

What I believe is missing in their incentive system is rewards for the long-term profit of the company. Ultimately that is what actually matters.

The first punishment listed involved the denial of further loans for subsidiaries with negative cash flows. It is unclear if the denial of loans is for a period of time or irreversible. If irreversible earlier mentioned criteria are not fulfilled. It could also be discussed whether or not it is cost efficient. It will of course control the cash flow but the subsidiary will still be part of the company and losses for them will result in losses for the company as a whole.

The second one could be regarded as a punishment if the scores are in some way accessible for others. I remember working with telemarketing selling language courses. For every booked trip I got a bonus to my salary but also I got a tick next to my name on a board that was visible to everyone working there. When I was new I really felt stressed and demotivated looking up at the board to see my name and very few ticks compared to a lot of others working there. I believe punishments are a hard case because people respond very differently. The aim of the board with ticks was of course to make us compete for the most ticks but to me it only added stress.

²⁶ Ibid p.401

²⁷ Ibid p. 402

The last one is simply not getting any rewards due to unreached goals. This is I believe highly *understandable* – if goals are not reached, one does not earn a bonus.

7. Should Berkshire Industries make special adjustments for the Spirits Division? In that case: what adjustments?

The Spirits Division has encountered *uncontrollable factors*. There are different types and the one present in this case is *economic and competitive factors*. The consumer demand went down, due to recession, which extensively affected the economic profit. Competitors reduced their prices which forced the Spirits Division to do the same, negatively affecting their margins. According to the *controllability principle* one shall only be held accountable for what is controllable. Bad or good luck should not have influence on rewards.²⁸

Because of this I believe it is right to make special adjustments for the Spirits Division as the manager could not control the situation. Doing nothing could increase the risk of gameplaying. Also, the manager is the expert in this area and should be fit for making good decisions. Thus I think it is important to listen to his request. I do not propose that the company shall implement his request without looking into the consequences; I mean that it is important to take the manager's request serious and open for a discussion. Questions that are important to answer are: How are we doing things now? How can we do things differently? A key part of being a manager is to be able to make responses to changes.²⁹

An adjustment that would be very sufficient in this case is the use of *relative performance evaluations*. This means that the performance is measured relative to competitors. The company should use *benchmarking* to answer questions like: Why are the competitors successful? What is the *best practice*? A problem with benchmarking is that it can be problematic to get the information needed from other companies.

Something I would not recommend is *subjective performance evaluations*. Surely they can correct flaws in the result measures but they also have the potential of creating an *excuse culture* and to be *biased* which could lead to employees not trusting them. Further these types of evaluations cost a lot of management time.³⁰ One could argue that in very rare occasions the use of subjectiveness could be suitable, the problem with this though is where to draw the line. That would then be a question for top management.

One risk with making special adjustments for one division is that it might make other divisions think that they also have the rights to special adjustments. Another risk is that the adjustments protect the employees but not the shareholders, it is important that the *direction* of the adjustment not only points in one direction, i.e. becomes *asymmetrically*.³¹

8. How can audits be used to deal with uncontrollable factors?

To start with the *controllability principle* states that employees should not be held accountable for things they cannot control. In reality this is really hard to follow mainly because of uncontrollable factors. There are different types of uncontrollable factors including: *economic and competitive factors, acts of nature and interdependencies*.

²⁸ Ibid p.533

²⁹ Ibid p.535

³⁰ Ibid p.543-544

³¹ Ibid p.545

Audit is a *systematically performed process* where *objects of interest* are objectively obtained and evaluated. Thereafter the objects are *judged* after the degree of *correspondence* to some criteria and finally the results are *communicated*, often in form of a report, to the users. The purpose of the report is to elucidate areas of potential improvement and in some cases it even suggests what actions can be made for improvement. The process is both time consuming and costly.³² One of the benefits of audits is that it adds *validity* and *reliability* to the information, but it also provides an *estimation of the internal control* of the system.

Nowadays not only financial audit is of interest. There are other forms such as *compliance audit* and *performance audit*. The first mentioned mainly evaluates whether the company comply with laws, regulations, administrative policies and such. Thus compliance audit can uncover frauds and irregularities.³³ This type of audit can therefore control *top management*, which otherwise would be considered uncontrollable as top management use MCSs to control others but are not being controlled themselves.

Performance audit aim to evaluate the performance of the organization, may it be a single activity or the organizations management. It can to some extent be compared with management consulting. This kind of auditing has the possibility to transfer some of the responsibility of the manager to the auditor, even when it comes to uncontrollable events. Further the auditors, especially when it comes to internal auditors, serve as “the eyes and ears of management”, which can be a very useful help in a lot of management control situations.³⁴ I believe that there is a great profit in the fact that audit itself creates anticipation; people tend to be more careful when they know they are “being watched”. Finally, the more people focusing on something, the greater the chance is that no factors are left unforeseen. When dealing with uncontrollable events performance audit has strength in that it usually involves very trained and experienced auditors who can share their expertise and give recommendations. It is incongruous to think that audits can control what is uncontrollable. What can be done though is to do something about it. Audit can form the basis of a lot of discussions for the managers.

9. In what ways can what happened at Lernout & Hauspie be considered as ethical?

“Ethics is the field of study that is used to prescribe morally acceptable behaviors.”³⁵ It is no exaggeration to say that ethics is a complicated area. Acting ethical is not always profitable, especially not in a short-term perspective. The balance between acting selfish and doing “what is right” is the cause of the most important ethical dilemmas.³⁶

From an economic perspective two assumptions are more or less recognized: rational people must act to maximize their self-interest and the main purpose for employees within for-profit organizations is to maximize stakeholder’s value. This can in many cases conflict with ethics which might involve other assumptions about how to behave.

Because of the fact that ethics can take the form of different perspectives the answer if something is ethical or not depends on viewpoint. Few people would probably regard large-scale fraud, as in this case, as ethical though two ethical models can.

³² Ibid p.635-636

³³ Ibid p.637

³⁴ Ibid p.639

³⁵ Ibid p.685

³⁶ Ibid p.686

The first one is utilitarianism and comes from the Latin word for usefulness. This model implies that one must always act so that the consequences become as good as possible for the total well-being of every feeling creature. Justice, equality and freedom have, according to utilitarianism, no intrinsic value. The model has been criticized as it cannot motivate nor explain the inviolability of human life, human rights or the forbidding of sentence an innocent person.³⁷ Other limitations involve the complexity of defining the total well-being as it is hard to measure and that the well-being of a minority is sacrificed in favor of the majority. As an example utilitarianism means that it would be better to execute criminals sentenced to imprisonment than keeping them in prison as this would imply a lower cost for the society. Likewise, handicapped would only be considered as a load and disadvantage for the society and that the society would be better off without them. This is a very cynical view of life and in pleasant in no aspect. From an economic perspective utilitarianism could justify why a manager boosts up sales to meet targets to avoid dismissing personnel.

In this case what happened at Lernout and Hauspie could be considered ethical if the acting was intended to generate maximum well-being, not only for the company but also for the region and the country by putting “Flanders Language Valley” on the map.

The other model is ethical egoism which involves the view that the goal of everyone should be to satisfy their own interests as far as possible.³⁸ With this kind of view the behavior, especially the one observed in Korea, can be considered ethical. The managers developed intricate ways of letting spurious figures make them earn large bonuses.

What happened in Learnout and Hauspie really agree with what I read in an article which is why I will make a digression here.

“As multinational companies expand globally and enter foreign markets, ethical conduct of the officers and employees assume added importance since the very cultural diversity associated with such expansion may undermine the much shared cultural and ethical values observable in the more homogeneous organizations”³⁹

Of course culture differs in countries and thus ethics will be looked upon differently. What is considered unethical in one country might be regarded as ethical in another. I do not imply that what happened in for example Korea might be considered ethical in some cultures but rather I wish to highlight the complexity of handling ethics as it is viewed upon very differently.

When a company grows globally it becomes more and more important that the same ethics are shared for the company to be consistent with the actions they undertake. It might not be enough to understand other cultures, not even to compose guidelines of desired ethical behavior to manage these kinds of problems. This is one of the reasons for the origin of the Sarbane-Oxley Act of 2002. So a problem for organizations today is: how shall ethical values be communicated? According to the article organizations where a strong ethical climate is present also has fewer ethical problems and could deal better with them when they occurred.⁴⁰

³⁷ National Encyklopedin, Bokförlaget Bra Böcker, 1996, 19:e bandet, sid. 140-141

³⁸ National Encyklopedin, Bokförlaget Bra Böcker, 1996, 5:e bandet, sid. 291

³⁹ International business ethics: strategies and responsibilities, Iraj Mahdavi, p.2

⁴⁰ International business ethics: strategies and responsibilities, Iraj Mahdavi, p2,4

To avoid problems such as the ones in this case not only must the company found an environment that is legal and moral, what is maybe more important is that the founded environment favors ethical behavior. In other words it is imperative for managers to foster this kind of environment to enhance the ability to cope with ethical dilemmas.⁴¹

But it is not enough with today's frameworks. Because of the global dimension to these problems codes of ethics through an international organization could be a solution. But as no such is present today, the companies needs to "*develop and enforce their own codes of ethics specifically directed at the issues related to a multicultural, multinational business environment.*"⁴²

I believe global codes of ethics is something really worth to commit to. Unethical behavior has been discovered in other big companies such as Enron and is a really hot topic and I fear that what we have seen yet is just the "tip of the iceberg".

Case:

Was AirTex in a need for a new control system? Why/why not?

Located in Texas, one of the fastest growing communities in the country, AirTex has a very good starting position, despite this AirTex was very near bankruptcy. The company was highly centralized and managed by a single woman, Sarah. Sarah did not have managerial knowledge and she made the company far from transparent. As an example the department managers knew nothing about their profitability, everything was kept in Sarah's head. This also made the company divided. All the (informal) department managers handled their department differently. In other words the company was lacking a visions and strategies that unified them. Maybe there were both visions and strategies, the case does not tell us, but the department managers certainly did not know anything about them.

One of the departments, the aircraft sales had to shut down due to inability to finance the number of aircraft required from the franchise company. This was actually a department with good profit opportunities and if the company had been managed in a good way this might not even have happened. Maybe the problem was the person responsible for the division who did not have the skills required? Maybe training would have helped him succeed? Maybe he should have been dismissed and replaced with someone else? Maybe he needed motivation in the form of performance targets? Maybe he was not loyal to the company and thus did not make an effort to solve the situation? With a MCS including personnel, cultural, result and action control these questions could have been answered and hopefully also solved.

Further the company had a terrible, next to non-existing, communication. The one having all the information, Sarah, was even avoided. She came to collect the money from the departments daily but without telling them if they were doing good or not. Only sometimes would she berate them for having high receivables. How is it ever possible to motivate employees to better performance when they have no means to control the situation because of lack of information?

In this case, all three causes of management control problems exist. *Lack of direction:* the managers are not told what to do differently. This decreases the likelihood that desired

⁴¹ International business ethics: strategies and responsibilities, Iraj Mahdavi, p.3

⁴² International business ethics: strategies and responsibilities, Iraj Mahdavi p.5

behavior will occur. *Lack of motivation*: neither incentives nor specified goals. *Personal limitation*: Mainly Sarah but also the Fuel line activity had unskilled employees.

So, YES, the company was in need of a new control system which clarified desired behaviors, targets and guiding principles by the use of result, action, cultural and personal control.

Evaluate how the new control system at AirTex takes use of elements of results control, action control, cultural control and personal control.

There are different types of control, feasible for different kinds of control situations. The four categories that will be described are: *personnel, cultural, result and action control*.

Personnel control (PC) involve self monitoring and is an outcome of employees tendencies to want to do a great job and thus PC finds fields of applications in every situation. There are four main types of PC: *selection and placement of employees, training and job design and provision of necessary resources*.⁴³

Cultural control (CC) involves mutual monitoring and is also possible to use in every situation, at least to some extent. There are five main types of CC: *codes of conduct, group rewards, intraorganizational transfer / employee rotation, physical and social arrangements and tone at the top*.⁴⁴

Result control (RC) is well used in decentralized organizations and can be used at all organizational levels. Some elements are required to make RC work: *knowledge of desired results, ability to influence desired results (controllability) and ability to measure controllable results effectively*. The measures must be: *precise, objective, timely and understandable*. Four elements are required to implement results control: *defining the dimensions of performance, measuring the performance, setting the performance targets and provide rewards and punishments*.⁴⁵

Action control (AC) serve to make employees act in the best interest of the organization and there are four types of AC: *behavioural constraints (physical and administrative), preaction reviews, action accountability and redundancy*. AC needs to be *routine, knowledge of desired actions exist and the ability to track actions exist*.⁴⁶

At AirTex, all of these control types are being used in different ways. The main difference with the new system is that it makes clear what is expected. Ted and Frank had knowledge of desired results and how to use the advantages of a MCS.

The Daily department report is a clear action control. As it has already been discussed in an earlier question I will be content with saying that it implemented in a good way, it is routine, the desired actions are known and it is possible to track the actions.

The leadership of Ted and Frank is of avuncular and personal form. They want to be “emotional leaders” which is an example of *cultural control* using *tone at the top*. Also

⁴³ Management Control Systems, KA Merchant & W A van der Stede, Second Edition,83

⁴⁴ Ibid p.85-90

⁴⁵ Ibid p. 29-34

⁴⁶ Ibid p.76-82

physical arrangements are used; the best example is how Ted arranged his furniture in his office to make his role as a teacher clear. In the role as a teacher Ted educated the department managers which is an example *training* which is a type of *personnel control*.

The decision to take the control from Sarah and later also let her go is an example of *personnel control*. More specifically: *selection and placement of employees*. Another form of the same control used is giving authority to hire and fire to the profit center managers.

Also RC is being used. The department managers are responsible for their profit center and receive bonus if targets are met. E.g. *rewards* are provided which oftentimes increases motivation, something that the department managers earlier lacked.

The responsibility of collecting and managing accounts receivable is an action control, more specifically an *action accountability control*. It is well implemented as it clearly shows what *actions are preferable*, it is *observed* and *punished* if not fulfilled.

The administration profit center provided a predictable and simple method of cost allocation that the department managers could understand. This is a very wisely used form of *action control*, more specifically an *administrative behavior constraint*. The reason why it is so efficient in this case is because the managers are not used to handle this kind of activities and most of them have no relevant education of this. As Sarah earlier prohibited them to actually **be** department managers it is not reasonable to think that this is something they could handle just like that. Than it is much better to let someone who can handle it. And this is exactly what is done in this case.

Finally, the main strength with Ted and Franks control system is simultaneous use of tight and loose controls (mainly discussed in question five) and the mix of personal, cultural, action and result control. More control is used in areas that are strategically important, i.e. the control is tighter for actions or results that probably will be most important for the success of the company. Further the controls used meets the characteristics of what makes the system work.

References

Management Control Systems, KA Merchant & W A van der Stede, Second Edition

Journal of Academic and Business Ethics, International Business Ethics,
International business ethics: strategies and responsibilities, Iraj Mahdavi, National University, <http://www.aabri.com/manuscripts/09279.pdf>, 2009-12-02

National Encyklopedin, Bokförlaget Bra Böcker, 1996

What I have done during the course

I have read and written a shorter text to all the cases except from Armco as I couldn't because I had not got the book then. I have also read the chapters belonging to each case, which was something that took **a lot of time**.

Further I have been to most classes and participated in the discussions every time I was there. Finally I have taken part in the seminar report.

It is easy to use hindsight and I now wish that I had started earlier with the questions to have more time and not having to stress so much with the homework assignment, but looking back in my calendar I don't know where I could have found time for it.

In conclusion I am quite content with my performance.