Control, organization and accounting

D.T. Otley
University of Lancaster

and

A.J. Berry
Manchester Business School

ABSTRACT

Organization control is a subject of fundamental importance to the designer of accounting control systems. Yet discussions of accounting control tend to take place against a back-cloth of incomplete and outmoded theories of organization and simplistic and authoritarian concepts of control. In this paper, the applicability of a cybernetic model of control to the control of human organizations is explored, with particular reference to the role of accounting information systems. The analysis uncovers a number of issues that require resolution before the model can be applied to accounting information system design. Some directions for research on accounting controls are discussed.

Organization control is a much neglected subject. That is, the study of the ways in which organizations manage and regulate their affairs so as to remain viable and to achieve their chosen ends or objectives has received comparatively little attention. Organizational theorists have tended to emphasize the exercise of power, authority and influence within organizations, and have given little consideration to how viable patterns of behaviour are achieved; those concerned with control theory have tended to ignore the special characteristics of human organizations which distinguish them from other systems, with the consequence that inappropriate control models have been suggested. Accounting researchers have paid scant attention to either body of thought and have tended to make control recommendations in a theoretical vacuum based on incomplete and outmoded ideas of both organization and control. In this paper, cybernetic

© 1980 Pergamon Press Ltd
Control and organization 29

Concepts of control are applied in an organizational context to the design of accounting information and control systems with the aim of generating a coherent theoretical basis for future accounting research.

‘Control’ is a term with more different shades and nuances of meaning than almost any other in the English language, with Rathe (1960) listing ‘57 varieties’ of its connotations. The most common idea it suggests is that of dominance; the domination of one individual or group by another through the exercise of power. However, there is a second strand of meaning that emphasizes the idea of regulation and the monitoring of activities. This latter use of ‘control’ is more in keeping with the original French term meaning ‘inspection’, and comprises the main connotation in several European languages (Hofstede, 1968). Business usage commonly incorporates both of these ideas, as is indicated by Webster’s Dictionary definition:

Application of policies and procedures for directing, regulating and coordinating production, administration and other business activities in a way to achieve the objectives of the enterprise.

In this paper the term ‘control’ will be used in its full cybernetic sense of both monitoring activities and then taking action in order to ensure that desired ends are attained.

Control and organization

The study of organization and the study of control have been closely interrelated in the sense that control is a central and inescapable feature of all human organizations. For example, McMahon & Ivancevich (1976) state that ‘there is practically universal agreement that organization implies control’, a view which had received earlier support from Tannenbaum (1968) when he claimed that ‘organization without some form of control is impossible’. Despite a degree of ambiguity and lack of definition in both the terms ‘organization’ and ‘control’, it is clear that control processes are a fundamental part of organizational activity. Both the exercise of power by individuals and groups and its relationship to the overall maintenance of the organization are central issues.

Indeed, organization can itself be viewed as a control process, occurring when groups of people feel the need to co-operate in order to achieve purposes which require their joint action. Following Etzioni’s (1961) definition that ‘organizations are social units deliberately constructed to seek specific goals’ then it is vital that control over the goal achievement process is established and maintained. However, such a functional definition of organization would not be accepted by all, and, as March & Simon (1958) earlier observed, ‘it is easier and probably more useful to give examples of formal organizations than to define the term’. In this way certain features of formal organizations can be made apparent, such as those outlined by Silverman (1970).

Silverman notes that organizations, unlike some other social arrangements, are perceived as artefacts, constructed to serve certain purposes.