



A socio-economic view on management control

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Abstract

Purpose – The purpose of this paper is to introduce a framework of management control that accommodates phenomena found in literature, like the importance of social factors for coordinating behavior, rule-following behavior and the evolutionary nature of control. Phenomena that the dominant economic view, based on self-interested actors and financial incentives, cannot easily absorb.

Design/methodology/approach – The framework characterizes control as the coordination of behavior in organizations. It is based on two-stage rationality in which rule-following behavior gives meaning to self-interest, and in doing so, coordinates behavior.

Findings – Management control of two-stage rational behavior involves managing the various elements of the framework in combination. The evolution of the coordinating rules in an organization will be partly autonomous and partly formed within the organization. Therefore, management control entails influencing the development path of the organization. Although it is concerned with the formation of controls in an organization, it is not exclusively concerned with the design of controls.

Practical implications – The framework provides broader opportunities for managing an organization than the theory based on simple rational choice.

Social implications – In this socio-economic approach, management will not consider controlling the “economic man” to be its core activity; instead, management will be coordinating the behavior of authentic human beings.

Originality/value – These aspects of management remain undervalued in mainstream literature on management control. The non-mainstream literature does pay attention to these aspects; however, they are seldom integrated in one theoretical structure that is based explicitly on a broad conception of human behavior. The socio-economic view can offer valuable insight into management and organization.

Keywords Control, General management, Organizations, Behaviour, Rationalization

Paper type Conceptual paper

Introduction

One of the pressing issues facing economic science is how to deal with the restrictive nature of the one-dimensional rationality concept. We do not want to diminish human action to “rational choice” and abolish the meaning of other factors like culture, norms and values, history and the like for economic action. If we did, we would miss or overlook empirical phenomena leaving us with a poor social-economic point of view. A way to deal with this problem would be to build images of the individual that permit both self-interested behavior as well as antecedent factors. Such a richer theoretical insight should enable us to accommodate empirical phenomena like the ones mentioned above. Considering the universal nature of theory on human action, this approach should apply



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to a variety of aspects and sectors of economic action, among which consumer behavior, economic policy, organizational behavior and intra-organizational behavior.

This paper will zoom in on the coordination of human behavior in organizations, in particular on management control. Although we know that a view on management and management control depends on an underlying conception of human nature, theorizing on management control by and large neglects this relationship. In literature, a number of phenomena come forward that the dominant economic view on management control, which is primarily based on self-interested actors and financial incentives, cannot easily absorb. However, there are very few attempts to supply a more general framework which is based on a broader image of human behavior.

This paper will introduce a conception of human agency that goes beyond the economic view and correspondingly goes beyond the self-interested individual, and show how it forms the core of a general framework of management control. For this purpose, we will build on a broad idea of rationality that can be found in the literature, which is two-stage rationality (Redmond, 2004; Verstegen, 1994, 1998, 2006). In this conception, which is strongly associated with institutional theory (Miller, 1994), purpose-seeking, self-interested, behavior will only have meaning in the second stage. In the first stage, a decision room is shaped, making purpose-seeking behavior attainable in the second stage. Based on this broader view on rationality, we will examine the working mechanisms of management control. The framework can provide an opportunity to accommodate four empirical phenomena that deviate from the economic view, like the importance of social factors for coordinating behavior in organizations, rule-following behavior and the evolutionary nature of control in organizations. This socio-economic view will provide opportunities for management control that remained undervalued until now. In that way, we can substantiate two-stage rational behavior as a way of looking at human agency that is richer and more promising in providing insights in aspects of economic life than the theory of simple rational choice.

In this paper, we will first sketch the economic view on management control and some deviant empirical phenomena as they appear in literature. Second, we will introduce the concepts of control and management control as we will subsequently use them in this paper. Third, we will discuss two-stage rational behavior in an organization and zoom in on the coordination of two-stage rational behavior. Fourth, we will build a framework of control based on two-stage rationality. Fifth, we will describe what management control of two-stage rational behavior looks like within the framework and show how it can accommodate the four phenomena mentioned in the literature. Finally, we will draw a number of conclusions, among others about the benefits of having a socio-economic view on management control.

The economic view

A major part of the literature in management control is concerned with the economic view on the control problem. According to this view, self-interested individuals are coordinated through the use of, mostly financial, incentives and punishments. Based on output criteria, individual incentives are brought in line with the organizational goals, hence sustaining goal congruence. If individuals will pursue their own interest, this will automatically be in the interest of the organization. In this view, management control is positioned against a background of tension between organizational interest and the self-interest of the actors. We can see clearly here that a view on management control is founded on a conception

of human nature; in the economic view, this would be the self-interested rational individual. On the basis of this economic view, many instruments and methods were elaborated upon (Anthony and Young, 2004; Atkinson *et al.*, 2003). For instance, from the literature on budgeting, we know how budgets should be designed, what the pitfalls are, how agents within organizations act on budgets and what are the risks of working without budgets. The agency literature and contract theory have shown in great detail how monitoring systems could be designed, what to do with residual claimant problems, what the behavioral effect of monitoring and bonding are and what the limitations are of agency-based solutions to the performance management problem. As this economic view is focused on only one type of incentive, which is the financial type, a factor that can be determined largely within the organization, it implies the existence of a deliberate act of management control. This entails the design of controls in such a way that goal congruence will occur in an organization.

Irregular phenomena

In the past few decades, four developments were highlighted in literature that cannot be accommodated easily by the neo-classical and new-institutional economics based perspective on management control. Many empirical studies show that the working mechanisms for managing an organization are found to differ from the solutions prescribed by the economic view[1]. First, management control does not depend solely on financial incentives but also on other variables such as cultural factors, group effects and past decisions (Dent, 1991; Pratt and Beaulieu, 1992). Second, the role of rule-following behavior for management control was highlighted. It appears to be important whether new controls match the routines that already exist in an organization (Burns *et al.*, 2003; Burns and Scapens, 2000). If there is a misfit, new controls tend to be ineffective or even damaging, as the new controls will not get entrenched in the organization. Third, the role of accounting and control concepts and systems as determining factors for the decision room of managers and decision makers in the organization was referred to (Chwastiak, 2001; Macintosh *et al.*, 2000). Accounting and control will not only play a part in determining incentives for actors with given goals and preferences, but also in directing actors' attention and molding their norms, values and goals. Fourth, an evolutionary approach to accounting and control change emerged in which path dependencies play an important part (Verstegen, 2006; Burns and Scapens, 2000). The evolving nature of accounting and control that are part of the development of an organization, combined with the importance of outside influences, forces us to rethink the strong emphasis on the design of controls in an organization.

Although there are attempts to build a conceptual framework that can include or absorb one or two of the developments mentioned above (Simons, 2000; Burns and Scapens, 2000; Merchant *et al.*, 2007), a framework that will accommodate all four developments and that is based explicitly on a broad conception of human behavior, is still absent. Before trying to provide such a framework, we will first discuss the key concepts of control and management control as we will use them.

Control

How do you combine the various resources in an organization, like human workforce and brainpower, capital, entrepreneurial capacities and financial resources? Of course, this is one of the fundamental questions of business, organization and economics. Within the

domain of this question, there is another question: how do we make individuals work together in such a way that organizational goals are served? On an even more specific level, we have the question: how can we make self-interested individuals with diverging goals work together? And finally we can ask: what financial rewards and punishments drive goal congruence within an organization? These are questions that are closely related to a number of conceptions of control.

In the literature, we can find various forms of control. For instance, governance has to do with control of stakeholders on an organization. We will see management control as concerned with the way in which management influences human behavior in the organization in association with organizational goals. Within management control, we can find many partly overlapping control concepts and systems. For instance, we can mention machine controls in which management tries to regulate as much as possible, boundary controls in which management stipulates what should not be done, what should be avoided (Abernethy and Brownell, 1997; Widener, 2007) and exploratory controls in which ill-defined non-programmable activities are coordinated (Speklé, 2001; Simons, 2000). On another front, we have behavioral controls, stipulating behavioral rules and soft controls, aimed at the social context of an individual or organizational part (Merchant *et al.*, 2007; Dekker, 2004). We can also mention feed-forward controls, situation-specific controls (Ahrens and Chapman, 2002), clan controls (Kirsch *et al.*, 2010), etc.

A widely known form of control is the formal planning and control perspective (Anthony and Young, 2004). In this view, an organization can be directed through a feedback mechanism that constantly compares targets with performance. It works like a thermostat. Based on strategic goals of the organization as a whole, goals are determined for organizational parts. These goals are made measurable. Performance is compared to targets and through financial rewards and punishments the organizational parts are directed in such a way that their goals are subsidiary to the strategic goals. The budgeting cycle is a frequent example.

For our purpose, it would be particularly worthwhile to examine the various levels of abstraction on which control is formulated. On the highest level of abstraction, we can see control as a coordinating function (Burns and Scapens, 2000; Vélez *et al.*, 2008). In this perspective, control uses all kinds of coordinating elements in an organization, like behavioral rules, group aspects, formal regulations, logistic planning systems, etc. and it can influence all kinds of resources in an organization. It would be more specific to see control as the coordination of human behavior (Merchant *et al.*, 2007). Such coordination can work through all aspects of individual human behavior, for instance, social relationships (Redmond, 2008), cultural rules (Efferin and Hopper, 2007; Chow *et al.*, 1994, 1999a, b) financial incentives, information or the dispersion of decision power within the organization. On the lowest level of abstraction, we can meet the performance-based formal and financial controls. These often use an agency point of view and try to direct the behavior of self-interested individuals. The widely known New Public Management movement is a strong advocate of this view (Hood, 1995).

Considering the goals set out in the introduction, we will choose a perspective on control that is not limited to any level of aggregation in an organization and that operates on a sufficiently high level of abstraction to allow us to examine human behavior and cooperation in a broad sense. We will regard control as: the coordination of human behavior in organizations, of managers as well as employees (de Loo, 2008; Burchell *et al.*, 1980; Mintzberg, 1990). The means for coordination are not always or in particular directed

within the organization. It is possible to have coordination of human behavior without being directed. For instance, when employees in an organization collaborate spontaneously, when shared working routines have emerged in the past, when professional identity motivates specific behavior or when spontaneous group processes shape strategy. In addition, we know that a number of outside factors, such as legal or cultural rules, shape the coordination in an organization. Some controls in an organization can be determined within the organization, some can be slightly influenced and some are formed outside the organization. However, it can all be controls in the sense above-mentioned meaning.

We can distinguish this view on control from the more limited concept of management control, which is concerned with the way in which management, through the development of controls, coordinates human behavior in the organization in association with organizational goals (Atkinson *et al.*, 2004; Merchant *et al.*, 2007; Emmanuel *et al.*, 1990). We want to emphasize two aspects of this definition. First, there is a sense of directedness in management control. Second, in this definition we will not regard organizational goals as given, after which the organization is brought in line with them. All we ask is alignment between organizational goals and the coordinated behavior of individuals (including management). So, we acknowledge that the goals are sometimes not leading but emergent; for instance, when specific incidents in an organizations or group processes induce top management to adapt the strategy.

Given this definitions of control and management control, we can ask how it takes place. What are the working mechanisms of coordination? For this purpose, we have to examine individual behavior and generate an image of it.

Two-stage rationality

If we want to study the coordination of human behavior within an organization, we have to have an idea of how individuals in organizations act and behave. If we do not want to be limited in advance by the notion of the economic man, we should have some broader conception of human agency, which on the one hand allows social and cultural aspects of human behavior, for instance, but on the other hand, does not declare rational choice behavior obsolete. We would rather seek a notion of human behavior that puts rational choice behavior in a context. A great number of rationality concepts were developed in the past decades. For instance, there is an unbounded rational behavior, which means that the ultimate optimum is reached, and there is a bounded rationality that retains rationality but within cognitive and cultural bounds (Simon, 1982; Verstegen, 1994; Vanberg, 2004; Hayakawa, 2000). Furthermore, we could point to irrational behavior, which is strongly associated with random behavior (Verstegen, 1994), procedural rationality, in which the process is deliberate instead of the result, substantive rationality (Simon, 1982), which is associated to unbounded rationality, intuitive rationality and so on (Fusfeld, 1996) In this paper, we will draw on the notion of two-stage rationality, which is similar to institutional rationality (Redmond, 2004; Verstegen, 1994, 2006; Hayakawa, 2000). In order to introduce two-stage rationality, we will start from the classical idea of individual choice behavior. Having such a notion at our disposal, we will broaden the concept to the surroundings of the individual and to the coordination of individuals.

Let us examine an individual decision maker who makes a choice between a number of alternatives on the basis of preferences. If the preferences and choice alternatives are given and if the individual has enough skills to solve the problem, a decision can be reached (Hogarth and Reder, 1986). Moreover, we can build a framework and predict choices or

perhaps even prescribe choices that are considered optimal. In such a framework, we can ask questions such as: what would happen if the set of choice alternatives would change, for instance, after price or income changes, or, what would happen if the preferences of the decision maker were to change, for instance, because of changes in norms and values. This will add content to the relationship between variations in preferences, the set of choice alternatives and the decisions made. As long as we adhere to the assumption of methodological individualism, this is how far the neo-classical analysis of choice behavior goes. In various branches of economics, the specifics of this approach are elaborated to a great degree, including uncertainty, fanning out of preferences (Machina, 1987), intertemporal effects (Phlips, 1974), etc. It holds for all variants that if the given decision problem is formulated correctly in terms of choice alternatives and preferences, the decision maker can order the alternatives according to the preferences and select the best one. Therefore, although preferences and choice alternatives can and will be informed by others, once they are determined the choosing can be done by the decision maker on his own.

There are two characteristics of this image of rational decision making to which we would like to draw attention. First, another formulation of the decision problem will in general render another optimal decision (Verstegen, 1994; Vanberg, 2004; Zizzo, 2008). If you are allowed enough degrees of freedom to determine the choice alternatives and preferences, any decision can be explained as being optimal. Therefore, if we want to explain a given decision as being an optimal choice, we should examine the set of choice alternatives and preferences that formed the decision space of the decision maker. It is not the optimization *per se* that explains the decisions made, but it is rather the formulation of the choice problem, of the decision room. Second, knowing that a given decision problem can be solved by an individual decision maker on his own, in isolation, we can ask where the interaction with other individuals comes in. This would be one of the major issues when examining control in an organization. Both considerations force us to go beyond the bounds to the decision problem.

Addressing the first point mentioned above, we will have a closer look at the framing of the decision room of decision makers in terms of the set of choice alternatives and preferences defined on this set. What determines the bounds to the decision problem? From the literature, we know a number of factors. Legal rules will have an effect on the set of decision alternatives either as some behavior is prohibited or by defining cost, penalties and risks connected to various choice alternatives (Polinsky, 1989; Posner, 1997). However, legal rules can also influence preference of individuals, for instance, when legal rules, as with respect to smoking behavior or reporting requirements, become entrenched in the norms and values of individuals in an organization. Obviously, group effects can have a major impact on the decision room of decision makers (Smelser and Swedberg, 1994). They can form the perceived decision space, influence norms, values and routines and define which actions are attainable and which are not. The same holds for cultural values and norms (Elster, 1989). However, there are more factors. The past can be a major determining factor for the current decision room (Duindam and Verstegen, 2000; Hultén, 2003; Peukert, 2003). Investments made in the past will have an effect on the current production possibilities of an industry. We can also mention past crises within organizations with current consequences for behavior or the effect of a past replacement of the corporate CEO with an influence on the current reporting rules and corporate ethics (Euske and Riccaboni, 1999). Of course, we know that financial conditions will have a powerful influence on the set of decision alternatives through

market prices, budgets, etc. Working routines that exist within an organization will considerably influence the decision room of decision makers as well (Burns *et al.*, 2003). They determine how “things are done around here”, sometimes stipulating possible courses of action and sometimes effectively prohibiting forms of behavior. Therefore, returning to the argument in the previous section, understanding bounded rational choices requires us to understand the determinants of the bounds to the decision room, which not only stem from the legal, social and cultural surroundings of the decision maker, but also from the past development of the organization and from the economic conditions (Neale, 1987). In effect, we now have an image of decision making in two stages. The factors that shape the set of choice alternatives and preferences can be seen to bring about rules used for formulating the decision problem in the first stage. In the second stage, the decision problem is solved in a bounded rational manner.

Now, as control is about coordination of individuals in an organization, the question is where does the interaction between individuals come in. This was the second issue we wanted to address. If a given decision problem can be solved by the decision maker in isolation, it will be clear that interaction with others does not come into the picture when solving the problem. Then, how does coordination of various decision makers affect the individual (Verstegen, 2006)? It is precisely the rules that determine the decision problem through which coordination can take place, so through cultural rules, group effects, financial conditions, routines, etc. (Halpern, 1998; Sjöstrand, 1992). Shared rules will coordinate behavior (Burns and Scapens, 2000). For instance, legal rules synchronize individual behavior. They tell us in what ways we can engage others and what is prohibited. Besides, legal rules tell us what to expect and in particular what not to expect from others. Reporting requirements largely determine how reports are assembled, with whom they are filed, at which moments in time, etc. These kinds of requirements are meant to coordinate the way in which individuals in an organization see their situation and courses of action. Cultural rules are another example of rules with a strongly coordinating function. They determine a common view on the world and on each other, on the one hand disciplining behavior and on the other hand making decision making and behavior possible (Efferin and Hopper, 2007). Other examples of coordinating factors were mentioned in the previous section, for instance behavioral routines, like scripted behavior allow us to start activities without continuous deliberation with others, which is a serious coordinating function (de Loo *et al.*, 2006). For coordination, the past development of the organization plays an important part as well. Working routines, reporting rules and organizational culture are examples of rules and rule systems that grow in time. Therefore, past occurrences shape the current coordination in an organization. In general, the coordination between individuals has its impact in the first stage of the decision process in which it forms and molds the decision problem that is solved in the second stage.

Control of two-stage rational behavior

In the previous paragraph, we saw that the working mechanisms of coordination in an organization are the shared rules that mold the decision room of individuals. Only when the decision room is determined through rule-following behavior in the first stage of the process, will purpose-seeking behavior become meaningful and will economic reasoning enter the process in the second stage. Therefore, as control is about the coordination of human behavior it is manifest in the first stage and necessarily

precedes economic reasoning (Neale, 1987; Hayakawa, 2000). As a consequence, control will not be restricted in any way to self-interested behavior.

An important aspect of controls is that they are interdependent. Factors that determine preferences, like norms and values, can be seen to have an influence on and to be influenced by factors that shape the set of choice alternatives, for instance legal rules (Posner, 1997; Lindbeck, 1997). On the one hand, we know that norms and values regarding the treatment of the environment are gradually incorporated in laws and regulations and that cultural norms and values have an effect on laws and regulations as well. On the other hand, legal procedures and rules can gradually become entrenched in behavioral rules (Verstegen, 2006), for instance, when smoking rules and reporting rules become ingrained in habits and routines. Other interdependencies are the encoding of habits governing trade relations in laws or the phenomenon that behavior not allowed by accounting rules becomes negatively valued within an organization. Another example is that national culture will interfere with the way in which performance management in an organization is shaped. In the Anglo-Saxon culture, an individual-based performance management would fit relatively well, as opposed to the European culture that would require a more team-based performance management system. These interdependencies are important when considering control. Focusing on mechanisms of control in isolation from other mechanisms would lead to a one-sided view on control, in particular as the interdependencies work both ways.

There is an order of generality in the set of rules, for instance putting constitutional rules above rules of law (Williamson, 1994, 2000; Parto, 2005). The higher order rules seem to set out the bounds within which lower order rules operate. Cultural rules set the stage for group processes and business law determines the field within which contracting requirements can be formulated. Hodgson (2003) calls this effect “downward causation”. However, the causation can work both ways (Williamson, 2000). Lower order rules can institutionalize in higher order rules, for instance, when behavioral rules in a society gradually get encoded in civil law. Hodgson (2003) calls this “upward causation”.

Where are the working mechanisms of control determined, inside or outside the organization? One could think that the rules responsible for coordinating human behavior are in some way or another a fact for the organization. Of course, this would not be the case. A number of these rules indeed are formed within society at large, such as legal rules and cultural mechanisms (Hodgson, 1994, 2003). However, other rules are formed in the organization itself, such as dressing codes and reporting rules. In addition, past decisions determine the current situation in an organization as well. In fact, the environment of the organization, the behavior of the actors in the organization and other factors such as past decisions, will interact in shaping the various rules working in the organization.

A related aspect is the evolutionary nature of change. The rules that form the decision space of decision makers often change at different speeds. The more fundamental rules, like constitutional and cultural rules, change at a much lower speed than less fundamental rules, such as contracting rules or dress codes. Owing to upward and downward causation, the various change processes are connected and the whole combination of rules that a given organization faces will evolve in a very specific way, in which path dependencies play an important role (Neale, 1987; Groenewegen, 2004; Granlund, 2001). This, therefore, substantiates the fact that the rules that govern the coordination of individuals in an organization are partly autonomous in the sense of not being within the discretionary power of the organization. A great number of

developments in the coordinating principles have their own momentum. Because of the interdependencies this also holds for the development of the whole combination of rules. There are evolving systems of coordinating rules that cause things to cohere and give stability to an organization (Burns and Scapens, 2000; Versteegen, 2006). That is, control for an important part is not deliberate.

Management control of two-stage rational behavior

When considering management control, the aspect of deliberate coordination in association with organizational goals comes in. Although management control is concerned with influencing behavior through the shaping of controls, the development path of the organization is partly autonomous and it will be no clear-cut job to bring organizational goals and activities in an organization in line with each other. Which parts of the coordinating rules and routines can be influenced or even designed and to which degree? Some changes are externally driven, for instance changes in legal or cultural rules (Henri, 2006; Harrison, 1993; Harrison and McKinnon, 1999; Efferin and Hopper, 2007). However, movements under the discretionary power of the organization can even, in this case, make major changes possible, for example, when a merger with a foreign organization introduces new legal systems or cultures at once. Lower level coordinating principles and rules, for instance accounting requirements, will obviously be more under the discretionary power of the organization than others. One of the means available to direct would be the fact that management is a part of the organization and of various groups within the organization. Leadership style and evaluative behavior will be part of management control then (Otley and Pierce, 1995; Harrison, 1993; Harrison and McKinnon, 1999; Noeverman, 2007).

In general, management will not be so much busy with designing the organization, but rather with weaving its control activities into the evolutionary development of the organization, influencing where possible and only sometimes designing controls. Some of the coordinating rules could strengthen each other and others will work in different directions. Management will “manage” the combination of controls in such a way that a coherent development of the organization will emerge. Focusing too much on deliberate design would distract attention from the whole picture. This would not only result in management being unaware of developments in a number of other coordinating principles in the organization, but also lead to overconfidence in the manipulability of an organization. The combination of both would result in a confidence in manipulability and an unawareness of other developments in an organization that have an impact on the coordination of individuals. Because of the interdependency we should view the factors that are subject to the discretionary power of management to be a part of a greater whole.

Management control of two-stage rational behavior moreover involves managing the various elements of the framework in combination. These elements are indispensable parts of the framework, each with its own role. Neglecting one of the elements would result in curtailed management control. For instance, neglecting various socio-economic variables or historical developments would mean that management is confronted with unexpected changes in essential conditions for behavior that could either strengthen or hinder management control. In that case, management control would have a blind spot. Neglecting rule-following behavior would mean neglecting the channel through which the various variables exert their defining influence. Disregarding the way in which the decision space of decision makers is formed would mean that management takes the decision problem of decision makers as given. Such a view would deprive management

from its coordinating role, as coordination works through the formation of the decision space. Finally, neglecting purpose-seeking behavior would result in management neglecting decision making itself.

In sum, referring to the four phenomena mentioned in the “Introduction” section, the framework of management control we presented indeed accommodates the importance of social and cultural variables and historical developments. Furthermore, rule-following behavior constitutes the way in which the decision room of decision makers is framed before a decision can be made. These aspects of management remain undervalued in mainstream literature on management control until now. The non-mainstream literature does pay attention to these aspects; however, they are seldom integrated in one theoretical structure based on a broad conception of human behavior. All four elements, or rather all five elements including purpose-seeking behavior, are part of the whole. The main advantage of our framework based on two-stage rational behavior probably is that it explicates that management:

- takes all five elements into account, as disregarding one of the elements would leave management control with a blind spot;
- uses an integrated view, as the five elements support and reinforce each other; and
- will not consider controlling the “economic man” to be its core activity, but rather coordinating real-life persons in an organization.

Conclusions: management control of two-stage rational behavior, a socio-economic view

In this paper, we wanted to look beyond one-dimensional rational choice and show the importance of factors like culture, norms, values and history for economic action. A representation of the individual that incorporates both rule-following and purpose-seeking behavior will permit a more fundamental understanding of various aspects of economic action, for instance, behavior on the labor market, consumer behavior and organizational behavior. We zoomed in on the coordination of human behavior in organizations, in particular on management control.

We intended to present a conceptual framework that is broad enough to accommodate four coherent developments highlighted in the literature that are overlooked in the economic view on management control. These developments are:

- (1) the importance of other variables besides financials, for instance culture and norms and values, for management control;
- (2) the role of rule-following behavior;
- (3) the role of management control in framing the decision room of decision makers; and
- (4) the evolutionary approach of management control.

We built a general framework based on two-stage rationality and we characterized control as the way in which human behavior is coordinated in an organization. Rule-following behavior frames the decision room of decision makers and in doing so coordinates behavior. In the framework all kinds of variables, like social and cultural factors and historical developments, play a part.

When limiting attention to management control, the framework allowed us to draw up a picture of management control as coordination through framing and (inter)connecting

the decision spaces of members of the organization and hence setting the stage for self-interested decision making. Management control of two-stage rational behavior involves managing the various elements of the framework in combination. Each element is an indispensable part of the framework with its own role. The evolution of the coordinating rules in an organization will be partly autonomous and partly formed within the organization. Therefore, management control entails influencing the development path of the organization. Although it is concerned with the formation of controls in an organization, it is not exclusively concerned with the design of controls or with decision support.

Finally, what did we gain by putting a broad conception of human agency, in this case two-stage rationality, in the center of a theory on management control? This socio-economic view highlighted aspects of management control which remained undervalued until now. It can provide valuable insights into management and organization. What is more, it reveals the possibly damaging consequences if management would neglect aspects of management control.

Note

1. Journals like *Accounting, Organizations and Society* or *Management Accounting Research* contain a lot of examples.

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