



# **Barbara E. Weissenberger Recommends “Management Control Systems: Performance Measurement, Evaluation, and Incentives” by Kenneth A. Merchant and Wim A. Van der Stede**

Barbara E. Weissenberger

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A key challenge in management is to achieve behavioral control, i.e., to ensure employees contribute effectively to a firm’s goals. To this end, a broad array of instruments has been developed in modern business administration. These instruments comprise, amongst others, techniques to break strategies down into action plans, create organizational structures, select and train employees, provide budgets and elaborate incentive schemes, monitor results, and analyze and solve technical business problems.

Nonetheless, anecdotal evidence and systematic empirical research yield but mixed results. We still observe undesired behaviors, from major scandals, like banks manipulating the LIBOR interest rate, the Diesel emission scandal in the automotive industry, or the misuse of user data by Internet firms, to

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B. E. Weissenberger (✉)

Management Control and Accounting, Heinrich Heine University,  
Duesseldorf, Germany

Accounting, Bucerius Law School, Hamburg, Germany

e-mail: [Barbara.Weissenberger@hhu.de](mailto:Barbara.Weissenberger@hhu.de)

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small-scale misconduct that does not make a news item, such as petty theft, information manipulation, budget gaming, and resource waste through negligent decision-making.

Over the last decades, researchers have learned (somewhat painfully) that understanding behavioral deviations in firms is usually not possible through focusing on single control instruments or one grand theory. Instead, a holistic approach is needed. It was Kenneth A. Merchant and Wim A. Van der Stede who in 2003 introduced their seminal economic object-of-control framework, thus allowing integration of the multifaceted theoretical lenses from psychology, sociology, politics, economics, or philosophy for understanding, analyzing, and even resolving management control problems.

In a nutshell, Merchant's and Van der Stede's idea is brilliantly clear-cut. First, management control problems regarding a firm's given strategy are identified: Is the desired employee behavior also the most likely one? If not, any reason for behavioral deviations is then decomposed into three roots:

- Employees may not understand what is expected of them (lack of direction),
- They may not want to act upon these expectations (lack of motivation), and/or
- They may not have the necessary resources or capabilities, or the task in itself is insoluble (personal limitations).

If a management control problem cannot feasibly be avoided by task automation, elimination, or centralization, Merchant's and Van der Stede's framework proposes addressing it by means of a carefully designed management control package, combining:

- Results controls, such as pay-for-performance systems,
- Action controls, such as physical constraints, preaction reviews, and action accountability, and/or
- People controls comprising personnel controls, such as selection, training, placement or job design, as well as cultural controls, such as codes of conduct, group rewards, and tone at the top.

In a well-designed management control package, all controls are chosen in combination, so as to interact with each other, reinforcing their impact as well as offsetting respective risks and side effects.

Besides its appealingly simple structure giving credit to the Occam's razor principle, the object-of-control framework provides a general structure to address management control problems with multiple embedded issues and

incomplete or unstructured information. At the same time, it is flexible enough to apply in changing corporate environments if new controls emerge, for instance, through the rise of digital technologies or through an increased need for social and ecological responsible behavior. It is therefore an economic idea well worth remembering in 21st century economics and business research as well as practice.

## Literature

Merchant, K. A., & Van der Stede, W. A. (2017). *Management control systems. Performance measurement, evaluation, and incentives* (4th ed.). Harlow: Pearson  
First published in 2003. ISBN: 978-1-292-11055-4.