Management Control Systems (MCS) are commonly used in organizations to align employee behaviors to organizational goals and strategies. While the traditional MSC approach was developed for stable and internally focused environments, an increasing number of organizations find themselves within a dynamic, interlaced and knowledge-driven economy requiring a new MCS design. A key factor for future success in this context is the organizations’ ability to create trust since this is an indispensable prerequisite for sharing knowledge with partners inside and outside the organization and, thus, a crucial resource within a knowledge-driven economy.

However, since the seminal work of Chris Argyris (1953), researchers have often indicated that a high emphasis on the control purpose of MCS executed by budgets or fixed performance contracts leads to a decline of trust and the emergence of unintended unethical behaviors. Some researchers even argue that the mere presence of fixed performance contracts might counteract the organizations’ ability to create trust. Overall, little seems to be known about the relationship between MCS and trust, and previous research findings have been mixed. Traditionally, researchers even conceptualize trust and control as opposite mechanisms.

More recent studies suggest that the design of some MCS characteristics may have a positive effect on trust which is mediated by organizational justice perceptions, i.e. MCS can enhance trust when designed in a way that is perceived to be “fair” by employees. However, little is known as to which MCS characteristics influence organizational justice perceptions. Thus, it is not yet possible to construct or rely on MCS that systematically promote organizational justice and trust.

In this context, the emergence of Beyond Budgeting (BB) as a holistic alternative approach towards MCS is of high interest, as its proponents claim that BB is capable of supporting the creation of a “high-trust organization” and prevents unethical behaviors. However, no deductive empirical study seems to have examined the impact of BB shaped MCS characteristics on organizational justice, trust or unethical behaviors. This thesis seeks to contribute to a better understanding of this relationship and, more specifically, it examines if (1) BB characteristics are perceived as fair by employees, (2) BB characteristics evoke trust within an organization and which organizational justice dimensions can serve as mediators between BB characteristics and trust, (3) and to which extent BB characteristics can reduce unethical sales behaviors in organizations.

The thesis applies a deductive, quantitative research approach, building on critical rationalism to examine the effect relationship between BB characteristics, organizational justice, trust and unethical behaviors. First, literature and previous studies are reviewed and analyzed in order to develop a theoretical framework. This analysis reveals that most MCS approaches rely on budgetary control. Though most organizations add new tools, e.g. Balanced Score Card, their MCS basically remains a command-and-control approach based on fixed performance contracts.
Moreover, unethical behaviors as side effects of MCS are quite common in organizations. Thus, current MCS approaches often seem to fail in fulfilling the main purpose of controlling employee behaviors in the best interest of the organization. One basic problem of MCS is that they are basically rooted in Theory X thought of school, assuming that employees are naturally lazy, refuse personal initiative and need therefore to be motivated by extrinsic goals (fixed performance contracts). Thus, new tools that should enable organizations to align well-trained knowledge-workers to strategy often remain command-and-control tools. Further, a high emphasis on fixed-performance contracts seems to raise a pressure on employees that promotes unethical behaviors, thereby creating a mechanism that counteracts the intended behaviors.

In this context, BB is of high interest as it claims to be rooted in Theory Y which assumes that employees seek for self-realization and purpose within their work. Given that a Theory Y rooted MCS might have an advantageous impact on organizational justice, trust and unethical behaviors, it is important to understand the underlying mechanisms that connect these constructs. Therefore, previous studies on the relationship between these constructs are analyzed. The analysis reveals that some MCS characteristics can be designed in a way that positively enhances organizational justice perceptions. While organizational justice has been found to promote various positive organizational outcomes, some of its dimensions seem to have a strong positive effect on trust.

However, no study could be found examining the connection between all four dimensions of organizational justice and both dimensions of trust in an organizational context. In addition, no study examines the impact of specific BB characteristics on organizational justice. To propose a model of relationships between these constructs, the core characteristics of BB are carved out by analyzing case studies of its best documented and most important use case, viz. Svenska Handelsbanken.

Based on these BB core characteristics: social control, autonomy, feedback from others and social support, it is possible to propose a model of relationships. A theoretical framework of four superior relationships is developed. It is assumed that (1) BB core characteristics enhance organizational justice perceptions, which (2) in turn enhances trust, which (3) reduces the appearance of unethical behaviors. It is also assumed that (4) social control might have a direct negative impact on unethical behaviors. Building on these superior relationships and on the review of literature and previous studies, a set of hypotheses is derived comprising all identified BB core characteristics, all dimensions of organizational justice and trust as well as unethical behaviors in a sales context.

To empirically test this set of hypotheses, it is decided to apply structural equation modeling (SEM). German cooperative banks are chosen as an optimal research subject. Given that this thesis applies a quantitative, deductive approach, the necessary data is gained with the help of a customized online questionnaire distributed to employees of German cooperative banks. Within the main study (N=738), the hypothesized relationships are tested by applying PLS-SEM. In terms of the research questions and the hypothesized model, the results suggest that (1) BB characteristics are perceived to be fair by cooperative banks employees. Especially, social support and autonomy have a strong and significant impact on the different organizational justice dimensions. (2) Also, organizational
justice dimensions have a strong positive and significant impact on both dimensions of trust (trust in supervisor and organizational trust). Especially interpersonal justice and informational justice enhance trust. (3) While trust in supervisor has no relevant impact on unethical sales behaviors, organizational trust has a significant negative impact on unethical sales behaviors of employees. Additionally, social control has a significant negative impact on unethical sales behaviors. Thus, BB characteristics can reduce unethical sales behaviors in two ways. One direct (i.e. social control) and one indirect moderated by organizational justice and trust. The results of this thesis suggest that organizations should pay more attention to fairness perceptions when designing MCS characteristics. Further, a BB shaped MCS really seems to have a considerable impact on organizational justice, trust and behaviors and might therefore be more efficient in controlling behaviors than classical command-and-control approaches.

Especially, replacing hierarchical control mechanisms with social control mechanisms to some extent, as already proposed by McGregor (1960), seems to enhance MCS’s ability to control behaviors and create a high-trust organization. However, there are much more MCS characteristics and more specific BB characteristics that should be examined by future research in order to achieve a more holistic picture of how MCS characteristics should be designed to enhance organizational justice perceptions.

Though this field of research is quite young, the results of this thesis suggest that it might be quite promising to intensively examine the relationships between MCS characteristics and organizational justice as a mediator towards trust and other positive organizational outcomes. This thesis also contributes to the opinion that future research might evaluate the advantageousness of different MCS approaches by assessing its impact on organizational justice perceptions.

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