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# The dehumanization and demoralization of Management Control Systems: Can we possibly re-humanize and re-moralize them?

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## ABSTRACT

In the last few decades, there has been some concern about forms becoming less and less "human". Or, in other words, becoming a place where human beings cannot self-actualize, where they are only pieces of a puzzle or "adjuncts to machines". This paper intends to review briefly the previous situation in the two decades after WW II, and then show how dehumanization of the firm and of the economic context of the firms begun after the crisis of the 70's.

Next, the paper goes to Management Control Systems, revising the "classical" systems and analyzing the Balanced Scorecard, which has been possible the main tool used for management control in the las forty years, showing how it is in fact unbalanced and dehumanizing. After illustrating this through a case example, it is concluded that indicators used for diagnostic for self-control only, with no implication in hierarchical control and/or incentives, may be very useful tools for management.

## KEYWORDS

Management Control, Dehumanization, Practical Wisdom

## 1. Introduction

In the last few decades, there has been some concern about firms becoming less and less "human". Or, in other words, becoming a place where human beings cannot self-actualize, where they are only pieces of a puzzle or "adjuncts to machines", to use an expression popularized by March and Simon (1958). This came from the changes that took place about the 80's of the last Century. New management "techniques", of which many of them were purely fads, were applied decreasing the autonomy and power of decision-making by employees, together with rigid systems of evaluation. At some point in time, this trend become alarming to many people and, perhaps to counter that, "empowerment", became a fashionable word.

Globalization and the deindustrialization of many developed countries, among them the United States, and the consequent loss of jobs and lowering of salaries, together with the disappearance of many fringe benefits (pension funds, medical insurance, and so on) as well of disappearance of a considerable part of middle class and the inequality resulting from all these phenomena have contributed to that.

This was a general trend, that had its particular development in Management Control Systems. In this particular field, the dehumanization took place to a large extent through a specific technique that had (and still has) a considerable diffusion: the so-called "Balanced Scorecard". In this paper we want to show how tools like the Balanced Scorecard are dehumanizing and demoralizing: when people are given different qualitative dimensions and specific numerical goals to be achieved, they lose their capacity of discerning what is "good" from what is "bad", and an incentive associated with those goals contributes to people doing what increases their incentive instead of what they consider "good".

I will proceed as follows. First, I will review the social context of the economic world after the end of World War II, showing how at that time management was supposed to serve primarily the objectives of society, to make the Western world successful (Drucker, 1954). Next, I will show how this situation deteriorated after the crisis of the 70's. Then, I will show how both from the academic community and from the professional community of the firms, there was some concern about dehumanization and claims for inverting the situation.

The, the core of the article will analyze Management Control Systems, first with a brief view to the "classical" systems that came from the Harvard Business School (Anthony

Dearden and Vancil), based on self-control (Drucker, 1954) and a small number of indicators, being used more as a diagnose tool than as a controlling system in the narrow sense of meeting quantitative objectives. Then, I'll show how Balanced Scorecards are in fact unbalanced and dehumanizing, and how most systems of measures are in fact as real as a square circle. Finally, I will suggest possible ways to re-humanize the firm.

## 2. The "Golden Age" of capitalism

The second half of the 20th Century begun as a time of economic recovery after the disaster of World War II. Many factories had to be rebuilt, many firms had simply disappeared, many houses had been destroyed, ant the economies of many countries, manly in Western Europe, had to be restructured and reorganized. The war effort meant transforming many firms from producing consumer goods to war industries, and now a similar effort had to be done to swing back to peace time production and reconstruction.
For this purpose, "good management" was needed. In fact, it was well needed before, during the war years, as the war machinery had to be kept running. What was developed, then, in terms of management theory and practice was meant as something to make the world progress. Of course, the profit motive for entrepreneurs and CEO's was always there, but in a spirit that was part of the effort to keep things going and develop the world further.
In Western Europe, Christian democracy and Social democracy were the dominant forces in the political arena. They differed in some important respects: social democrats wanted to nationalize important industries where Christian democrats or conservatives did not. But there was a spirit of "doing things right" that embedded politics management both in theory and in practice. Drucker's "The Practice of Management", (1954), reflected that spirit, seeing the firm from a wholistic point of view and, at the same time, with a humanistic approach, full of respect for the individuals (managers, workers and customers before anyone else) and introduced the idea of public responsibility. At the same time, the pre-war humanistic writers (e.g., Follet, Barnard, Mayo) were studied and often quoted. Stiglitz has called this period, in which he grew up, the "Golden Age of capitalism", although he recognizes that he thinks of it as a Golden Age *now*, not then (Stiglitz, 2019, p.1).

## 3. Dehumanization of the firm

After the crises of the 70's (the Yom Kippur war, the first oil crisis and what was characterized as "stagflation", a combination of stagnation, with high unemployment and high inflation) the mood changed, and neoliberal policies came into effect (deregulation, monetarism, laissez-faire, veneration of "markets"), pushed mainly by the governments of Reagan in the US and Thatcher in the UK. Then, in this context, economistic views of management based on self-interest and shareholder value, plus techniques intended to promote short-term results started to prevail both in practice and in academic works, dehumanizing the firms where this view were applied.

Essentially, the economistic view consists of considering only economic values when analyzing the firm and the decisions made in them. "Doing things right" became maximizing shareholder value and motivating employees became (almost exclusively) monetary incentives. Around the turn of the century, shareholder value was the main objective stated in the annual report of many companies. The Business Roundtable, an organization of firms that together employ more than 15 million people, "has periodically issued Principles of Corporate Governance that include language on the purpose of a corporation. Each version of that document issued since 1997 has stated that corporations exist principally to serve their shareholders." (The Business Roundtable, 2019). Other possible stakeholders were completely ignored in those statements. Human relations with employees, customers, suppliers, etc. were considered to be of secondary importance. Shareholder value had to be the decision-making criterion above anything.

Interestingly, the decision-making criterion of creating shareholder value for the firms (mainly in investment decisions) was first introduced in the literature by Rappaport (1986), not with the idea of giving preeminence to shareholder value over everything else, but with the idea of stressing the long run. Rappaport was worried about the income figure calculated by the standard accounting procedures being a poor indicator of the performance of the firm, mainly because of the effects of a decision in the long run. Then, he adopted that idea because of the impact of the investment decision on shareholder value, which would be the aggregation of all the investor's beliefs about the future of the firm, therefore giving managers a long-term view of the consequences of their decisions. This idea was reinforced later on in Rappaport (2005, 2006), where he kept insisting in the long-run objective.

In the meantime, however, the shareholder value idea was used as a way to give it priority over all other possible objectives of the firm; and, as such, it was one of the keys to dehumanization: the interests of all other stakeholders (employees, customers, suppliers, communities) had to be subordinated to shareholder value. Sometimes, in an "enlightened" way (Jensen, 2000); but in any case, it was very often used "straight", as indicated in the "mission statements" of the firms. Nonetheless, both in the academic literature and in the Annual Reports of companies, the maximization of shareholder value, often based on short-term income, was the dominant criterion.

There were, of course, some exceptions, even many, mainly among the small and medium-sized businesses, but the economistic view was, as we stated already, the prevailing view. Even as late as 2016, *The Economist*[1], referring to McKinsey's book "Valuation", published the year before, stated that "… it is a reminder of why shareholder value is still the most powerful idea in business and why many criticisms thrown at it are unfair".

As we will see next, criticisms were not as unfair as *The Economist* seems to think. Many voices were raised against this criterion, but, mainly, against its applications.

## 4. Conscience of dehumanization

The last two decades have meant what can possibly be seen as the pendulum swinging back. Criticisms have been stronger and have come from very different sources, mainly in recent years.

When the shareholder value idea appeared, its justification was in terms of Pareto-optimality, as usual in conventional microeconomics (Jensen, 2000). But, of course, starting from the usual assumptions of microeconomics: perfectly competitive markets for everything, including labor, fixed production functions, and perfectly rational decision-makers in terms of their utility functions.

Soon, then, it became obvious that the shareholder value criterion was often misused; i.e., going back to Jensen's expression, it was not applied in an "enlightened" way. Hence the criticisms *The Economist* referred to in the quotation above. Senge (2000) argued forcefully that "intentionally or not, firm value maximization will almost always become, by default, short-term profit maximization". In fact, in the same issue of *The Economist*, magazine admitted that "shareholder value fueled a sense that Western economies are not

[1] March 31, 2016

delivering rising prosperity to most people and has been seen as a license for bad conduct, including skimping on investment, exorbitant pay, high leverage, silly takeovers, accounting shenanigans and a craze for share buy-backs, which are running at $600 billion a year in America."

The shareholder value idea led to dehumanization or fading away of the role of real people in organizations, partly through attaching an excessive importance to the finance function, often with an inversion of values between the mission of the firm and the financial function (Rosanas, 2015). The excessive importance of finance was analyzed by Davis (2009, 2011), reaching sad conclusions with respect to how it even reshaped America.

Alvesson and Spicer (2012), in a slightly different vein, develop a "stupidity-based" theory of organizations, and Alvesson (2013) identifies and analyzes the "Triumph of Emptiness", specifically in consumption, higher education and in organizational life. He emphasizes the trend towards grandiosity (in words and in reality) and identifies the costs that this carries, that mainly have to do with dehumanization: loss of trust between people, narcissism, "functional stupidity" and an increase in quantity with a corresponding decrease in quality.

Recently, Winter (2020) has presented an excellent analysis of dehumanization in management, showing how it is a serious problem, leading to a diagnose of loss of values, and corporations that are "dehumanized, stripped of human inspiration, meaning and judgement, disengaged from society, from what the people that make up society believe is important"; and, then, following Eric Fromm, that "the feudal, arbitrary hierarchy of the Middle Ages has been replaced by conformity to anonymous laws of capitalism that are no longer challenged by anyone in the system". We will go back to his analysis later on in this paper.

The psychological literature recognizes dehumanization as an important problem that we can find very often and with serious consequences (Haslam, 2006; Christoff, 2014; Ryan and Deci, 2000). Somewhere in the middle between management and psychology, or even pathology, Pfeffer (2018) points at the effects in health of the dehumanization of the workplace, from lack of health insurance to layoffs and economic insecurity.

Finally, the philosophical bases of complex decision-making in practice are well established in Aristotle's Ethics, through the concept of practical wisdom, which Schwartz and Sharpe (2010) and Schwartz (2015) put in terms that can be directly related to management decisions; and, even more specifically, Cugueró-Escofet and Rosanas,

(2020b) analyze it in the context of management control systems. Schwartz's examples of the long set of rules given to a hospital janitor, that enumerates quite well the tasks that the janitor should do, but no mention is made of the reasons behind them, which is always doing something for other human beings, is an excellent one: one can follow the rules and forget about the human being that needs the service. Janitors believe that to do their job they need a lot of experience because they have to learn the practical wisdom necessary to be able to know when to make an exception to some of the rules or apply them differently, because of the human being(s) behind. In other words, you need to have developed intellectual and moral virtues, practical wisdom and justice mainly.

In fact, Schwartz's proposal of learning virtue through practice is the only alternative that is feasible. Developing more and more rules will not cover all conceivable contingencies; and if you attempt to write a set of rules on how the rules should be applied, then you will need also a set of rules on how to apply the rules on how the rules should be applied, and so on to an infinite regress.

## 5. Some concerns from the world of practice.

At the same time, in the real world (as opposed to the academic world), some developments were taking place in a similar direction. First, as we suggested above, the Business Roundtable Principles of 2019 recognized for the first time that "employees, customers, suppliers, communities were stakeholders entitled to be part of the purpose of a corporation", and they can be considered to be a recent symptom of some alarm about dehumanization of the firm, as it is the opposite to what they had been saying since 1997 In spite of this, a few months later, some of the CEO's that signed the document (of Goldman Sachs, Black Rock, Citibank, Bank of America among others) are accused of hypocrisy because of taking actions that are not coherent with the essential ideas of the document (Temple-West, 2020).

Hurst (2014), in a publication as practically minded as the Harvard Business Review clearly proposed some substantial changes in the way we see the firm and the way the firm should be managed, asking whether management is due for a renaissance.

Senator Warren, as someone who is experienced in business law, introduced in 2019 a bill in the US Senate, the "Accountable Capitalism Act", that attempts to tackle the complex issues about the role of firms and how they should be governed. This bill, if it is passed, would allow employees to elect a 40% of corporate board members, and would have companies answer to other stakeholders as well (Warren, 2018). Unfortunately, in

spite of her praiseworthy efforts, and even if the bill is passed, there is no way that dehumanization can be stopped or humanization reintroduced through the legal system only: it has to do with every day's behavior of (mainly) the top managers of a company, and this is impossible to regulate. The bill might surely help, but something else is needed. Building on the proposals made by Warren in her Wall Street Journal article, Rebecca Henderson (2017, 2018), renowned Harvard professor, attempts to diagnose organizational problems while prescribing solutions to reinvent the corporation – and capitalism itself – for a more equitable and inclusive economy, shifting payments to shareholders to investing in employee pay and benefits, as well as a general commitment to social responsibility. She considers inequality an "urgent business problem", and suggests that some companies, including Traders Joe's and Costco, are already benefitting from of this approach.

## 6. Management Control Systems

Management Control Systems have been often considered as the main tool for managing organizations (Anthony and Govindarajan, 2003; Chong, 2013; Merchant and Van der Steede, 2007; Cugueró-Escofet and Rosanas, 2020a). Setting objectives, measuring, evaluating and taking control action are the main activities of such systems. Whether this is done through specific, well-established procedures, or in a way that is informal, does not matter: what matters is that managing an organization consist primarily in those activities; which should of course be preceded by defining the overall goals of the organization, whatever they are and whatever the procedure by which are determined. More on this, later.

Briefly summarized, the classical Anthony, Dearden and Vancil (1972) approach was based in three major ideas. First, that Management Control was something between Strategic Planning and Operational Control, interacting with these other two levels in a way that Management Control could (and should) influence the other two. Specifically, one of the possible outcomes of the Management Control Process was to question and perhaps modify Strategic Planning.

Second, Management Control was structured along financial variables. The network of Responsibility Centers to be established in a company was based (under the idea of controllability or fairness) on the main variable that could be influenced by the Responsibility Center.

Third, that this main variable should be determined according to the "Key Economic Variables" or "Critical Success Factors" (expressions that could in practice be used interchangeably), i.e., what the company had to do very well to succeed. The "Critical Success Factors" are not trivial to determine and, within the firm, who can really do something about them may look even paradoxical sometimes. Hence, an effort to explain very well to the responsible people why and how this can be done is crucial.

Finally, that the analysis that should precede any control action by management has to take into account all the relevant (quantitative or qualitative, tangible or intangible) variables, stressing the fairness that should govern all the process (Vancil, 1973).

Anthony, Dearden and Vancil were careful to distinguish between the "structure" of the control system (network of responsibility centers, and the specific responsibilities of each center) and the management control "process", which is the process by which every period the objectives of each responsibility center are determined, and how are evaluated and rewarded/punished after the facts. The evaluation is extremely important and responds to a humanistic concept of management: it is the basis for learning (of all kinds) for future periods.

Were classical systems based on financial variables exclusively? On paper, perhaps; in practice, what was taught following Anthony, Dearden and Vancil was precisely the opposite: it emphasized the limitations of formal financial control systems, in terms of inadequately rewarding or punishing behaviors that should not be, because of the dialog and learning in the evaluation process.

## 7. Balanced Scorecards.

In the late 80's of the part Century, systems called "Balanced Scorecards" appeared into the picture. In fact, they are are sets of performance indicators (which later on have often been called KPI's, or Key Performance Indicators) which became rather quickly very popular. Partly, they were a fool's paradise; and partly, they have been one of the main tools for dehumanizing the firm as we will see.

They have been presented as a modern tool which improves the performance evaluation system of firms including many variables beyond the purely quantitative usual variables like costs, expenses, revenues, contribution, profit and so on. "Classical" control systems used to focus on the financial variables of this kind, even though very often, in practice, some specific non-financial measures were calculated and used as well.

The proponents of the Balanced Scorecard Systems, then, justified them in terms of being broader, including market variables, innovation, the internal perspective and perhaps even more dimensions. Unfortunately, many of the non-financial variables are very difficult to measure, i.e., they have very imperfect measurements, with a lot of "noise" that, as we will see, may compromise the objective that they are supposed to attain. I will go back to this later.

The basic dictum on which this approach is based is "If you can't measure it, you can't manage it" (Kaplan and Norton, 1996, p. 21). In different words, this has been expressed also as "If you can't measure it, it doesn't improve". These statements, which are often heard to justify imperfect measurements, are simply nonsensical, no matter who says them. Small and medium-sized firms have been managed, and often very well managed, with few measurements (if any!) beyond the routine financial accounting statements. They are nonsensical simply because some aspects of management, which are at the same time extremely difficult to measure and crucial for the firm, actually get a lot of attention and can be managed and improved if top management (mainly the CEO) insists in asking about them, shows that it is genuinely interested in such variables and continually checks for their progress. A related statement which is often (but by no means always) true would be "if the CEO does not pay attention to it, it will not be managed, and it will not improve". Unfortunately, this statement that can be true does not imply the need or even the convenience of measurements.

A different way to put it is in the positive form: "What gets measured gets attention, particularly when rewards are tied into measures" (Eccles, 1991). This statement, although it appears to say almost the same thing, is completely different from the other two above: this one is in fact true, generally speaking (again, not always). If you measure something and put a strong reward associated with that measure, it gets attention almost always. However, what gets attention is the measure itself, not the real variable that you want to manage (see below); and, with imperfect/incomplete measures, the two things are substantially different. Typically, a manager who is evaluated (and rewarded) with a measure will do whatever is possible to make the measure as high as possible, doing perhaps actions that are not good by themselves for the firm or for the manager, but that increase the value of the variable measured. Examples of this kind of dysfunctional behavior abound, which, unfortunately, are often unethical (see, for instance, Gibbons, 1994; Rosanas and Velilla, 2005; Cugueró-Escofet and Rosanas, 2016).

## 8. Balanced Scorecards are typically unbalanced

Unfortunately, Balanced Scorecards do not deserve their name. For Kaplan and Norton, a Balanced Scorecard is a way to express operationally the mission of an organization. They quote Senge (1990) saying that a mission statement should be "inspiring" and then they proceed to claim that the Balanced Scorecard is the tool to tell employees how to put the mission into practice. The mission of the firm, according to them, should be "inspirational", but often they are not specific enough; and so, many employees do not know what to do unless the Balanced Scorecard gives them specific goals to accomplish. Yet, the examples they give are not very inspirational indeed: "To be the most successful company in the airline industry", for instance (p. 24) does not seem to inspire too much or be a good guide to action. In contrast, the mission of Southwest Airlines, just to quote another mission in the same industry, suggests very clearly what to do: "dedication to the highest quality of customer service delivered with a sense of warmth, friendliness, individual pride, and company spirit". Any employee at any level knows perfectly what to do under such a mission statement. The employee needs only to have judgement. No need for a Balanced Scorecard in this situation, then.

In support of their claim, they offer the example of Norman Chambers, of Rockwater. Although they do not provide the mission statement of the company, they say it is a "detailed" statement that took two months to elaborate, and that, after it was completed, a project manager told Chambers he did not know what to do with a customer according to that statement. If it had been one similar to that of Southern Airlines, the manager certainly would not have had such a problem. The solution of Kaplan and Norton is, of course, a Balanced Scorecard.

Actually, what they are proposing is eliminating the subjective (human) elements of management; and, thus, they dehumanize the firm. In order to avoid the subjectivity, prejudices or partiality of managers, they establish a system where instead of making the project manager understand what has to be done to solve the client's problem, they give him a set of, say, four or five indicators with a number to be achieved.

Quite obviously, the design of the system made by a person or another could be substantially different: it depends on the experience and (subjective) idea of what to do. What may look "balanced" to one person may look "unbalanced" to another.

Going a little bit further, the Balanced Scorecard system consists in the elimination of the management control process itself: the evaluation is done automatically with the

corresponding KPI's and the numerical values expected. No need for judgement. Unfortunately, like in Schwartz's example of the hospital janitor explained above, no set of indicators will include everything the responsibility center is supposed to do, or when to make an exception.

Finally, including non-financial variables was nothing new, in spite of the claims. The General Electric measurement project of the 50's of the past century already had attempted to do so, and devised eight "key areas", where the last ones were as intangible as "Employees Attitudes", "Public Responsibility" and "The Balance Between Short-Range and Long-Range Goals" (Greenwood, 1974, Ch. 4). This is not too surprising if we take into account that Drucker was involved in the measurement project as an external consultant and used these "key areas" as "major objective areas", with some minor changes of name, in the one that is possibly his best-known book (Drucker, 1954, Ch. 7). General Electric was aware in its system of measurement that some important variables could not (and should not) be summarized in a number. The "Balanced Scorecard" proponents are not.

It is precisely because of that that "Balanced Scorecards" are in fact unbalanced, according to the dictionary definition of this word: "Lacking steadiness and soundness of judgement[2]". By not including important qualitative important dimensions and wanting to quantify everything, they lack "soundness of judgement".

## 9. Balanced Scorecards are dehumanizing.

But there is more. In order to make an important management decision (like for any other important decision in this world), the Greek philosophers (Plato and Aristotle, mainly) found that we need what they called "practical wisdom" (phronesis, in the original Greek). Practical wisdom is something different from science and empirical truths, is the capacity to deliberate whether something is "good" or not in terms of particular circumstances of time and place, which cannot be generalized (Aristotle, 2009; Schwartz and Sharpe, 2010; Schwartz, 2015; Winter, 2020).

A human organization wishes its employees to acquire practical wisdom, it has to permit to each of the individuals that have a responsibility to deliberate about what do they have to do in order to obtain a result that is good for the organization, and let them make the decision.

[2] Webster's Encyclopedic Unabridged Dictionary of the English Language

This is particularly applicable to management control situations (Cugueró-Escofet and Rosanas, 2020). The capacity and ability to deliberate about such actions is what develops this person's practical wisdom. If, in contrast, the person is given a set of indicators, then the person might learn how to achieve the quantitative results indicated by the scorecard, but nothing more. If the indicators are inadequate for the real objective of the unit, the responsible person might learn that, but the system does not encourage this person to communicate this upwards.

Kaplan and Norton also claim (1996, p.17) that Balanced Scorecards encourage double-loop learning. We have just argued that nothing could be farther from the truth. Single loop learning consists in changing the procedures and/or methods to attempt to achieve some objectives, taking them as given; and Balanced Scorecards may be said to help to do this. In contrast, double loop learning consists in analyzing the basic assumptions made to establish the objectives in order to change them if they are not good enough. Balanced Scorecards do not help in this at all.

Actually, for any person who is responsible of an organizational unit, a Balanced Scorecard makes this person focus on a few dimensions (three, or four, or perhaps as many as ten or more) that are part of the unit's objective, but cannot be the whole objective because the measures are never "complete" as we will see in the next section.

Therefore, instead of using his/her own practical wisdom, the person in charge is "dehumanized" by being given these dimensions instead of the "whole" objective of the unit in an inspirational way. Furthermore, he/she is given a number (goal) for each dimension that he/she has to meet, that typically has some rewards (incentives) associated with attaining the goals or exceeding them. Or, in other words, "Don't think, just make the numbers!". In the Citibank case below we will more specific about that. In any case, this falls into all the reasons that, according to Winter (2020) originate dehumanization of management: the theory of the firm (strategy and objectives from above), the capital markets and institutional investment (shareholder value) organization and efficiency (specific goals), regulation (all the rules associated with the scorecard) and compensation.

It is a pity that very often we forget the old wisdom that used to be common. As early as 1956, Ridgeway already argued that quantitative measures were a problematic endeavor. In his *Conclusions*, he states that:

> "Quantitative performance measurements - whether single, multiple, or composite - are seen to have undesirable consequences for over-all organizational

> performance. The complexity of large organizations requires better knowledge of organizational behavior for managers to make best use of the personnel available to them. Even where performance measures are instituted purely for purposes of information, they are probably interpreted as definitions of the important aspects of that job or activity and hence have important implications for the motivation of behavior. The motivational and behavioral consequences of performance measurements are inadequately understood. Further research in this area is necessary for a better understanding of how behavior may be oriented toward optimum accomplishment of the organization's goals." (Ridgeway, 1956).

There is an additional interesting point to be made. Typically, in practice, the KPI's of a Balanced Scorecard are often associated to an incentive system. This, according to our analysis and to Ridgeway's quotation, is very dangerous. Now, Kaplan and Norton (1996) say that they should not be used as a controlling system (p. 25), but then, in the last chapters, and mainly in Chapter 9, explicitly or implicitly, they say that incentives should be used. If this is the case (statistically, according to the Balanced Scorecard User 2018, about 35 % of the time they are), this destroys the moral will of the person affected (Winter, 2020) by possibly pushing that person in a direction that he/she does not consider to be good.

## 10. The square circle of measurements

A wider framework of management control is that of Simons (1995a; 1995b; 2005). He attempts to widen the scope of management control systems, introducing four levers of control. Simons' framework has been criticized because of "the definitions of its concepts, which are too vague and sometimes ambiguous" (Tessier and Otley, 2012) Nevertheless, the distinction between the Diagnostic Control Systems on the one hand and Belief, Boundary an Interactive Systems on the other is particularly interesting for our analysis here. Diagnostic Control Systems can be said to be close to the "classical" control systems, referring to the measurements of the crucial variables. Simons calls them "critical performance variables", expression similar to Vancil's "critical success factors" (Vancil, 1973), and has a similar aim: management's assessment of whether those variables that are critical are being attained or not. In Simons' view, as stated, there are three more "levers" of control: Belief Systems, Boundary Systems, and Interactive Control Systems; which might be considered to "humanize" the otherwise mainly numeric and in some way "routine" control systems.

Belief systems come from the core values of the firm, and indicates what values have to be respected or aimed at. They are a qualitative expression of what the firm wants to achieve, closely related with its mission, and close to its policies, to use the classical word to denote the procedures and aims that the firm definitely wishes to be fulfilled.

Boundary systems are in some sense the opposite: what a firm wants to avoid. Unfortunately, Simons reduces these to avoiding risks, when they could have included other outcomes that the firm wants to avoid, because they are illegal, or illegitimate, or perfectly legitimate but not desired in the spirit of the firm, as expressed in in its “inspirational” mission.

Interactive Control Systems are formal systems intended mainly for large organizations “to share emerging information and to harness the creativity that often leads to new products, line extensions, processes and even markets” (Simons, 1995a). Thus, “Interactive Control Systems focus on constantly changing information that senior managers consider potentially strategic” (Simons, 1995a).

Surely, in practical applications the last three levers of control add some qualitative considerations to the mainly number-based Diagnostic Control Systems, and, thus, the set of control systems may include more behavioral or humanistic variables; but in order to configure the Diagnostic Control System, Simons rightly expresses his wishes for the characteristics a measure has to have (Simons, 2005, Ch. 4).

First, it has to be “objective”, i.e., two different people calculating the measure should come up with the same value. It sounds like a good characteristic to require, but this will seldom happen in the context of management. “Cash” is something measurable in a perfectly objective way; but, beyond that, even the simplest financial variables are not objective: Revenues, costs, expenses, profit, etc. can be measured in very different ways, and always with a discretionary component. Let alone something like “customer satisfaction”, as we will see in the example of the next Section.

The second characteristic is that it should be “complete”, i.e., it should include all the dimensions, or properties that the performance being evaluated should have. Which is also a good characteristic, but one may wonder whether it is compatible with objectivity at all: it clearly is not. “Cash” is perfectly objective, but it is not a complete measure of anything. Customer satisfaction may be a complete measure in the sense that it incorporates all the aspects of customer service; but it is not objective. One can think of

many ways to "measure" it, incompatible between them. The two first characteristics alone already sound like a square circle: something that cannot exist.

To add insult to injury, there is a third condition: it should change with the actions of the people (one person or an organizational unit) take. This is a new name for the old criterion of *controllability* (Anthony, Dearden and Vancil, 1972; Vancil, 1973): a person should be evaluated only on variables he/she can control. Vancil associated this with "fairness": obviously, evaluating someone on the basis of some variable this person cannot influence would be an "unfair" lottery. But let us just mention that, quite often, the "critical success factors" can be evaluated only on variables that include them together with other variables that are not controllable or are controllable by someone else. In a profit center, for instance, there are always some costs that are under the control of someone else.

Therefore, all this sounds like a square circle and a fool's paradise at the same time. But let us add an additional consideration that is important in terms of Simons' Diagnostic Control Systems. If the variables used for diagnostic are used at the same time as the bases of incentives, especially in what he calls hardwire incentives, which "represent a direct connection between goals, results and rewards", then they fall directly into what in social science has been informally called "Campbell's Law":

> "The more any quantitative social indicator is used for social decision-making, the more subject will be to the corruption pressures and the more apt it will be to distort and corrupt the social processes it is intended to monitor" (Campbell, 1979).

Hence, accountability and diagnostic are in fact incompatible.

Campbell used crime rate as an example in his paper. He claims that a decrease in a city's crime rate may not show a true reduction in the number of crimes that have been committed, but may simply reflect how the police force has changed procedures to count the number. They may have decided, for example, to change which police encounters need to be formally recorded. They may also have downgraded some crimes to less serious classifications. In any case, the parallel between Campbell's observation and a management control system situation is quite obvious.

We are then back to the T.S. Eliot quote at the beginning: we lose wisdom in knowledge, and we lose knowledge in information. We might add that we lose information in data, which are so many times meaningless.

## 11. A case study of Performance Evaluation at Citibank

All these concepts are illustrated next with the help of a real-world example, taken from a Harvard Business School case about Citibank[3].

The California Division of the Bank developed in the last decade of the past Century a Performance Scorecard because it felt that the financial measures that had dominated Citibank's performance in the past were not enough to capture the bank's strategy. Thus, the Performance Scorecard was built around six types of measures: financial, strategy implementation, customer satisfaction, control, people and standards.

The case presents the problem of the evaluation of James McGaran, manager of the most important branch of the bank in the Los Angeles area. According to the case description, McGaran is doing just fine in every dimension, except in "Customer satisfaction", as measured "through telephone interviews with approximately twenty-five branch customers who have visited the branch during the past month. Customer satisfaction scores were derived from questions that focused on branch service as well as other Citibank services like 24 hours phone banking and ATM services". So, McGaran is doing what he is supposed to do for the customer as well as for the bank. But one of the indicators says he is not.

Then his boss, Lisa Johnson, and the President of Citibank California, had a problem. According to the rules, a branch manager would obtain a bonus of about 15% of the salary if his final Performance Scorecard rating was "par" or as much as 30 % if it was "above par"; but according to the rules of the performance evaluation system, he could get at most a "par" evaluation if he had one of the dimensions (in this case, customer satisfaction) "below par". Yet, he was doing excellent in all other dimensions, and both Lisa and the President felt he was doing a very good job in a particularly difficult branch, that happened to be one of the biggest of the California Division. Lisa had rated him excellent any time she had the opportunity. She was very happy with her employee. Then, if they decided to tick the box "below par" in Customer Satisfaction, he might end up with no bonus at all, or perhaps with only the 15 % bonus. Also, she knew that McGaran gave a lot of importance to his ratings, as a matter of pride.

But they both knew that if he was given an "above par" rating, many people would interpret that the division was not serious about its non-financial measures, and, thus,

[3] Citibank: Performance Evaluation, Harvard Business School, 9-198-048

discredit the new system that was supposed to reflect precisely the importance of such measures as compared with the old system that stressed the financials only. What should they do, then?

In spite of the appearance of exactness and objectivity of the "Customer satisfaction" measure, it is a measure that has some "noise" in it, i.e., if the interviews were done again by someone else, the probability of a different result is quite high. Maybe higher or maybe lower, but different. Besides, it included branch services that are partly controllable by McGaran but others, like ATM, that are much less controllable.

McGaran seems to be aware that he has to do a good job and keep the customers happy. He is trying. But he has to make this compatible with the financial results and all the other variables. How much effort he devotes to each one of the dimensions he controls should be for him to decide. Lisa Johnson and the President should make sure McGaran internalizes what the branch should achieve and let him do whatever he thinks is best. If he cannot make this kind of decisions because he does not have the necessary knowledge, they should train him before anything else; if they believe (which actually they do not) that this person is not fit for that job, they should find another place for him. But if they think that he can do it and that he is doing fine, they should give them the 30% bonus, even if it takes saying that his performance is "above par" when, according to the scorecard, it is not. If they do not do that, McGaran will learn something: next time, forget about value creating activities for the firm, or for improving the internal climate of the branch or to do a real better customer service: worry only about the questionnaires of the customers, and do something that will increase your rating.[4]

Quite obviously, if they do that, the President has to start getting rid of the Performance Scorecard with prudence and wisdom. The conclusion is simply an extension of Schwartz (2015) and Winter (2020):

A Balanced Scorecard with indication of different dimensions and quantitative goals for each one, and an incentive associated with it, destroys (1) the moral skills of the person who is evaluated through them, and of the evaluator as well; and (2) the moral will of the two individuals.

[4] In fact, there is some evidence in the case that this may already be happening, as McGaran has tried to improve his customer satisfaction ratings in a purely cosmetic way; and that Lisa has not had the fortitude (which is a moral virtue, incidentally) to be critical of his performance. But this would be a long discussion, and we have no space here do go into it in depth.

What a person should do when working in any organization has to do with the ends of the organization, applied to the individual's job. This translation is not trivial at all. We may be willing to accept that the bank has done a good job at quantifying some aspects of the job; but this does not include all of them. The Eliot quotation at the beginning of the article, then, is again particularly appropriate: What wisdom have we lost in knowledge?

## 12. Is there a conflict between effectiveness and humanistic values?

What we have said may lead to believe that managers are idiots, cranks, crooks, or something similar if, on purpose, they introduced techniques that have succeeded in dehumanizing and demoralizing the firm.

Well, not necessarily. They have had strong pressures to obtain short-term results from "above" and they apply this pressure downwards. And the process is repeated in the second, third, and additional levels. Until you come to people that are governed just with "statistics". The movie "Sorry, we missed you!", by Ken Loach is a perfect illustration of this at the lower levels. The nonsensical inhuman system of exploiting workers shown there, has unfortunately become very common. The foreman in the movie only wants to make "his stats" and, thus, commands in a way that is inhuman, unreasonable and exploitative. He is not the culprit, above him there is someone else that has his/her own "stats". And so on and so forth. And, above everything else, you can be sure there is a Balanced Scorecard.

Indicators in general are typically useful for decision-making, but essentially for self-control. They help in diagnosing what happens in McGaran's branch. The only thing management should worry about McGaran's ratings should be to try to find out *why* (diagnostic) the customer satisfaction ratings were low. There might even be obvious reasons. Applying the incentive system automatically is absurd.

Using the system to diagnose problems, in contrast, will result in positive learning and an improvement of the results, even possibly in the short run, but for sure in the long run. Using the scorecard as a straitjacket or an automatic threat will not result in any effectiveness.

## 13. Re-humanizing the company?

The basic conclusion of the previous analysis is that indeed the firm has been dehumanized and that the Management Control Systems have been one of the tools used in order to do that.

We have also stated in the las section that, in general, it is not because of bad will or ignorance, but rather because some of these techniques become, at some point in time, "fashionable" and obtain the short-term results that shareholders ask from them.

One way no to do that is that of teaching more Ethics courses, or more sessions on Ethics in the programs of the Business Schools. As Ghoshal said many years ago (Ghoshal, 2005; Ghoshal et al, 1999), business schools should not teach additional courses; it would be sufficient if they stopped teaching some of the concepts, theories and approaches that they are teaching now. Since Ghoshal passed away, the trend has rather been the opposite to what he would have wished. What they teach has been more and more economistic and, at the same time, they have introduced more and more Business Ethics courses, which then become something only cosmetic. Economistic courses tell students that shareholder value and the ways to increase it are the only important thing, and that incentives are the way to accomplish that employees do whatever is necessary in order to achieve that objective. Business Schools have been abducted by the economistic approach, which has influenced all the disciplines taught in them. Accounting and finance courses and textbooks seldom look at people in the organization as if they did not exist. Strategic management books and courses do no better on such matter. Even OB courses and textbooks look at people as "instruments" in order to achieve the objective of "effectiveness" (see, e.g., Robbins and Judge, 2013):

> "Organizational behavior (…) is a field of study that investigates the impact that individuals, groups, and structure have on behavior within organizations, for the purpose of applying such knowledge toward improving an organization's effectiveness."

We went to some length at the beginning of the article to the social context where the change towards dehumanization had taken place, precisely because what is taught in business schools, published in books, and so on, comes from the social context; and, thus, If we want to change that (and we should if we want to increase the total welfare of all the people of the world and not to make rich some shareholders) we should change the social context, starting with our attitudes towards organizations in general, firms in particular and the way to conduct firms very specifically.

Changing the social context is not easy. It will not be done by teaching ethics. Teaching ethics can achieve at most a change in our minds, and what is needed is an increase in our virtues, mainly practical wisdom and justice. And an increase in virtues takes place only

with practice. And there will be no practice if we have systems that do not favor that, and the climate of the firm is such that the people that get rewards and recognition are the ones that make (or exceed) the numbers.

## 14. Conclusions

The main conclusions of this paper can be put in a very brief form. First, that there has been a trend towards dehumanization of the firm since the late 70's of the past Century, that has achieved a sad state of dehumanization within organizations in general, and firms in particular. This takes the form of people as instruments to generate economic wealth for shareholders. This trend should be reversed.

Second, to a great extent this has been done through "mechanistic", "modern" management techniques: sets of indicators ("the more, the better") and incentive systems (again, the more, the better). These are the basic instruments of Management Control Systems, which are the main organizational arrangement to manage the firm. Specifically, "Balanced Scorecards" have been possibly the main culprits of dehumanization. Therefore, they should be eliminated as soon as possible, and we should go back to the "classical" approach to Management Control Systems as a tool for self-control (Drucker's expression) and diagnose (in the sense of Anthony, Dearden and Vancil). Indicators are not a bad thing if they are used for that purpose. On the contrary, they are a very good thing; but they become bad when they are the basis for controlling and rewarding ("Campbell's Law").

Finally, in order to re-humanize the firm, we all have to make an effort to celebrate and encourage the accomplishments of all employees in a firm (as well as any public personalities) in terms of everything they do, and not because of their financial success. To the extent that we all publicly admire Zuckerberg and Bezos because they made billions, we are contributing to dehumanize the firm.

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