

Bureaucracy and Culture: Toward Two-Factor Theory of Organizational Control

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Abstract

Purpose: In this article we focus on the issue of organizational control in its bureaucratic and cultural forms.

Methodology: This research uses exploratory case study analysis of Matsushita Konosuke's management style of in the early years of the Panasonic Corporation.

Findings: First of all, we find that despite the impressive body of knowledge accumulated over the years, some questions concerning the relationship between two modes of control and their changes over time still remain unanswered. As a result of case study analysis we put forward an original model illustrating the relationship between bureaucratic and cultural modes of control over stages of the organization life cycle.

Research implications and limitations: Implications of the study consist of prescriptions on how to successfully exert control by combining formal and informal measures. Main limitations of the study are related to its generalizability.

Originality: Originality of the study results both from putting forward a new theoretical models and using original historical case of Panasonic Corporation.

Keywords: organization theory, control and coordination mechanisms, bureaucracy, culture, business history

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| Introduction

Bureaucracy and culture are two major topics within the field of organizational theory. Each of these topics has a long history of theoretical debate and each has its own vast literature. In this article we focus only on publications in which these two topics have been discussed in conjunction with each other as two opposing modes of organizational control. We find that despite the impressive body of knowledge accumulated over the years, some questions concerning the relationship between bureaucratic and cultural modes of control and their changes over time still remain unanswered. The objective of this exploratory study is to shed some light on these issues by analysing the management style of Matsushita Konosuke in the early years of the Panasonic Corporation. As a result we put forward a model illustrating the relationship between bureaucratic and cultural modes of control over each stage of the organization life cycle. In the final part we discuss a number of limitations of this study, as well as explanatory potential of the model and implications for theory and practice.

The motivation for this study was twofold. First of all, we were puzzled by the dichotomy between the widespread perception of Japanese organizations as possessing strong organizational cultures, being value driven, commitment based, while at the same time exhibiting extreme levels of bureaucratization and formalization. Secondly, the main motivation to undertake this research came from the observations of Japanese subsidiaries in Poland. Japanese expatriates in Polish subsidiaries that we have interviewed during our field research conducted for a different research project, very often emphasized the importance of strong organizational culture while expressing disregard for formalization, written formal rules and procedures. At the same time, their local subordinates complained about the lack of clear guidelines and consistency in the management of the subsidiary. Similar problems were reported in literature concerning Japanese subsidiaries in other countries (Keeley, 2001). This contrast between Japanese companies at home and abroad struck us as somewhat paradoxical and motivated us to analyse the roots of Panasonic, as one of the biggest, most diversified and geographically-dispersed Japanese companies with strong corporate culture. As it turned out the history of Panasonic has provided some interesting insights about the roles of bureaucracy and culture and their mutual relationship in the process of aligning behaviours of organizational members.

| Organizational control in the previous studies

The Definition and Two Modes of Organizational Control

Despite the fact that origins of the concept of organizational control could be traced back to some of the earliest works in the field of organizational theory (Weber, 1947; Fayol, 1949; Merton, 1957) over the years there has been very little variation as far as its main objective is concerned. Organizational control has been consistently defined as actions taken in order to decrease the

uncertainty related to spontaneous behaviours of organizational members and to direct their efforts towards the attainment of organizational objectives (Merton, 1938; Tannenbaum, 1968; Olsen, 1978; Flamholtz et al., 1985; Raelin, 2011). A general agreement on the ends of organizational control did not prevent, however, the development of variety of theories concerning its means and characteristics.

Early literature on the issue of organizational control has focused on outputs as the main object of control, as well as, on formal plans and schedules as the main means of exerting such control (Weber, 1947; Fayol, 1949). The main characteristics of these early bureaucratic forms of control consisted of rationality, impersonality, stability and continuity, hierarchy and specialization (Weber, 1947; Fayol, 1949). Some later studies have also stressed the communication-enhancing aspects of bureaucratic control, which through formal coding, channelling and standardization may significantly improve the flow of information within the organization (Walsh and Dewar, 1987).

Subsequent studies on organizational control extended early bureaucratic theories developing so-called 'cybernetic' models of organizational control. The functions of these models were no longer limited to outlining plans and schedules, but included measuring, assessment and feedback mechanisms, which, in theory, permitted them to regulate themselves (Lawler, 1970; Flamholtz et al., 1985). The underlying assumption of cybernetic models was that organizational objectives can be defined in the form of the standards, that the work output can be measured and compared against these standards providing organizational members with feedback in respect to their performance and correcting any deviations (Hofstede, 1978; Jaeger and Baliga, 1985)

As soon as cybernetic models emerged, however, some researchers began to point out their limitations and putting forward new alternative models organizational control. Hofstede pointed out for example, that the assumption of the necessary division of responsibilities between controller and controlee is false. Drawing on the examples of semi-autonomous work groups in Dutch assembly workshops he argued a case for a 'homeostatic' mode of control in which measuring, comparing, feedback and intervening is carried out within the group (Hofstede, 1978).

Finally, Ouchi, whose work marked the peak of the organizational control debate, pointed out that the possibility of employing cybernetic mode of control is limited by the availability of output measures and knowledge of the transformation process (Ouchi, 1977). He argued that additional distinction has to be made in terms of object of control and distinguished output and behaviour control as two separate modes (Ouchi, 1975; 1977; 1979). He also identified the so-called 'clan control' as the most desirable mode of control when both the ability to measure output is low and the knowledge of the organizational transformation process is imperfect (Ouchi, 1979).

In the following years scholars came to an agreement that despite different taxonomies and nomenclatures of organizational control, generally two modes of control could be distinguished (Jaeger and Baliga, 1985; Crisp, 2002; Kirch, 2004; Raelin, 2011). In this article we adopt the taxonomy put forward by Jaeger and Baliga and call these modes “bureaucratic” and “cultural” (Jaeger and Baliga, 1985). Table below presents characteristics of both modes of control in relation to the main elements distinguished in the previous literature (Eisenhart, 1985; Kirsch, 2004).

Table 1 | Elements and characteristics of two modes of control

	Bureaucratic control	Cultural control
Measurement	Measurable outcomes and explicit behaviours	Implicit norms and shared goals
Evaluation	Formal exchange of information based on written documents	Informal exchange of information based on dialogue and interaction
Rewards	Pay, bonuses, promotion/demotion based on following the rules or achieving targets	Group recognition and peer pressure based on acting in a manner consistent with group
Roles & relationships	Hierarchical	Group work

Source: Jaeger and Baliga (1985); Kirsch (2004).

We define ‘bureaucratic control’ as formal mode of control, in which measurement is performed in relation to outcomes and behaviours of organizational members. Ideally, as a result of bureaucratic control employees will know what the targets are and how to achieve them. Evaluation of performance will be based on formal exchange of information and written documentation, such as standard operating procedures or status reports. Consequently, controller and controlee do not have to be in the same room for the evaluation to take place. Rewarding in the bureaucratic mode of control will take a form of pay, bonuses, promotion/demotion based on following the prescribed behaviours or achieving predefined targets. Finally, roles and relationships between organizational members subjected to bureaucratic mode of control will be predominantly hierarchical based on formal superior-subordinate relationships. Even though the main characteristic of bureaucratic mode of control is formalization a word of caution is necessary in relation to its operationalization. Even though terms ‘bureaucracy’ and ‘formalization’ might suggest measurement of a number of formal rules in the organization (Pugh et al., 1963; Hanks and Chandler, 1995), some authors argue that such approach is simplistic and might potentially lead to serious omissions (Walsh and Dewar, 1987). According to the authors, bureaucratic control should be considered more comprehensively, in its original “Weberian” sense, as “a quality of an interaction expectation”. This suggests that it should be researched in a qualitative, rather than a purely quantitative manner and should include description of coding, channelling and standardization of organizational interactions.

Conversely, we define ‘cultural control’ as informal mode of control, in which measurement is performed in relation to implicit norms and goals shared by organizational members. Ideally as a result of cultural control employees will know how to behave and why such behaviour is

required. Evaluation mechanisms will be based on informal exchange of information through dialogue, which requires presence and direct interaction between organizational members. Goal congruence and behaviour consistent with group expectations will be rewarded with group recognition, while inconsistencies will be punished by exclusion or peer pressure. Finally, roles and relationships of organizational members in case of cultural control will be characterized by focus on group work and co-dependence. In the previous literature ‘cultural control’ has been defined as the long-term process of internalization of norms, values, objectives and “way of doing things” by organization members, which guides their behaviour and decreases its variance (Ouchi, 1977, 1979; Flamholtz, 1985). Cultural control was said to be characterised by vague organizational goals and job responsibilities, dispersed authority, reliance on intrinsic motivation and commitment to as well as focus on behaviour and processes rather than outputs (Jaeger and Baliga, 1985; Keeley, 2001).

Although cultural control might seem like the exact opposite of bureaucratic control both modes are in fact inseparably intertwined and exist in every organization. The question remains however what is the nature of their relationship. We will consider this issue in the following paragraphs.

The OLC and the Relationship Between Two Modes of Organizational Control

The question of the relationship between different modes of control has puzzled many researchers (Ouchi, 1977; Hofstede, 1978; Jaeger and Baliga, 1985). The main obstacle in understanding this relationship has been a “static” or “snapshot” approach to this issue (Kirsch, 2004). However, by employing Organizational Life Cycle (OLC) framework recent studies were able to provide some interesting insights into the debate. We present some of them in the following paragraphs.

Despite the overall long history of the debate about organizational control its dynamic dimension has remained an uncharted territory. Only recently authors began to realize that although characteristics and effects of different modes of control have been thoroughly studied, we still know relatively little about the way in which control mechanisms are developed (Marlow et al., 2010).

This gap in the research was seen as particularly odd given the prevalence of formal control as one of crucial indicator delineating the organizational development stage in the Organization Life-Cycle models (Greiner, 1972; Quinn and Cameron, 1983). Despite strong criticism concerning OLC models, presenting them as subjective and artificial representations of the process organizational growth (Levie and Lichtenstein, 2010), they continue to provide a useful conceptualization framework. From the point of view of this article, OLC models are useful for considering the relationship dynamics between modes of control as their stages represent bundles of time and other organizational characteristics i.e. a unique strategic configuration that stretches across time and is logically linked with the previous and following configuration (Hanks et al., 1993). Given the contingency relationship between an organization’s size and strategy and modes of

control discussed in the previous literature (Jaeger and Baliga, 1985; Ouchi, 1975; 1977), OLC models are the only theoretical frameworks that permit comprehensive dynamic analysis of a complex concept like control.

Since the complete review of OLC literature is neither feasible within the scope of this article, nor is it crucial for our main point of interest, we will base our discussion on existing extensive reviews of OLC models (Hanks, 1993; Levie and Lichtenstein, 2010) and focus only on studies, which implicitly consider the issue of control. The table below summarizes the most notable OLC models, while indicating the position and trajectory of the change that takes place in the mechanism of organizational control.

Table 2 | Changes in the patters of control over the stages of Organizational Life Cycle

Model	Number of stages	Change in control
Greiner, 1972	5	Informal -> Formal -> Informal
Galbraith, 1982	5	Informal -> Formal
Quinn and Cameron, 1983	4	Informal -> Formal -> Informal
Miller and Friesen, 1984	5	Informal -> Formal -> Informal
Kazanjian, 1988	4	Informal -> Formal
Hanks et al., 1993	4	Informal -> Formal
Lester et al., 2003	5	Informal -> Formal

As the table above illustrates, the projections concerning the change in the mode of control over the stages of OLC are included in each of the most notable previous studies. Indeed, also in other OLC models the concept of organizational control, under different names of formalization, bureaucracy, structure etc. is always, either implicitly or explicitly, present among stage indicators. Give these studies it might be argued that organizational control should be considered as a process rather than a state, and that the relationship between its formal and informal aspects cannot be understood without a dynamic analytical approach (Walsh and Dewar, 1987; Ram et al., 2001; Kirsch, 2004; Cardinal et al., 2004; Marlow et al., 2010).

Unfortunately, there is a scarcity of studies which, explicitly consider the issue of such relationship and even less, which do so dynamically. One of the first, is a theoretical paper by Eric G. Flamholtz, T.K. Das and Anne S. Tsui entitled *Toward an integrative framework of organizational control* published in 1985. Authors of this paper put forward an interesting idea of formal, bureaucratic control system beeing emerged in a wider contexts of organizational strucutre, organizational culture and finally external environment. The rationale behind embededness of formal system withing the scope of cultural one, was an assumption that goal congruence is achieved by alignment of outcomes and behaviour of organizational members (Flamholtz et al., 1985).

The peaceful coexistence of both modes of control has been confirmed by some recent empirical studies. For example Laurie J. Kirsch has researched the dynamics of change of formal and informal modes of control in different stages of Information Systems projects (Kirsch, 2004). He found, consistently with existing literature about OLC, that in the first phase of the project mostly informal modes are used, then in the second phase focus shifts to formal control and finally in the third phase both modes coexists and interact with each other. They have also reported various reasons behind such changes, such as changing character expectations, skills, competencies of stakeholders and the relationship between controller and contolee. Most importantly however their findings provide empirical proof for the coexistence and mutual supplementing of two modes of control.

Another revealing finding concerning this issue has been reported by Cardinal, Sitkin and Long in their single case study of Blue Whale Moving Company (Cardinal et al., 2004). The authors of this study found that although control mechanisms developed by the company over the years tended to switch from informal to formal modes and back again, neither of these modes disappear entirely in any stage but rather tended to become latent only to reappear in later stages. This latency of control modes was presented by authors as a metaphore of multiple layers of paint on canvas, which are put one upon the other. As a result, authors argue the case for a perception of formal and informal modes of control as dualism, rather than dichotomy, and call for more dynamic and integrative approach to this issue.

All of the studies mentioned above clearly indicate that the issue of organizational control should be considered more dynamically in order to understand the nature of the relationship between its bureaucratic and cultural modes.

Research Gaps and Unanswered Questions

The literature review presented above has shown that despite a considerable amount of knowledge and research concerning bureaucratic and cultural modes of control, there are still some undiscovered areas and some crucial questions unanswered. Two issues to which there seems to be no disagreement is that bureaucratic and cultural modes of control coexist in every organization (Ouchi 1977; 1978; Jaeger and Baliga, 1985; Flamholtz et al., 1985; Kirsch, 2004, Marlow et al., 2010) and that the extent to which they are present changes over the stages of the organization life cycle (Greiner, 1972; Galbraith, 1982; Quinn and Cameron, 1983; Miller and Friesen, 1984; Kazanjian, 1988; Hanks et al., 1993; Lester et al., 2003). However the issue of their relationship between the two modes has not been as yet successfully addressed in the literature. Therefore our main research question will asks about the relationship between bureaucratic and cultural mode of control over the stages of OLC. In the following paragraphs we will present a study of the early history of Matshushita Electric and try to interpret it in the context of the dynamic relationship between bureaucratic and cultural modes of control.

| Case study of Matsushita Electric

Panasonic Corporation is one of the major Japanese companies known for its size, geographical dispersion and strong organizational culture (McInerney, 2007). The early days of Panasonic, in which it was still called Matsushita Electric and was managed by its founder Konosuke Matsuhita, provide some valuable insights into the debate concerning the relationship between bureaucratic and cultural modes of control. This case study has been based on an extensive review of literature concerning the history of Matsushita Electric including books by foreign authors (Gould, 1970; Kotter, 1997; McInerney, 2007), those written by Konosuke Matsushita himself and published by PHP Institute (Matsushita, 1984; 1988; 1992; 1993; 2007; 2010; 2011). We have also collected and analysed archival data collected during research visit in Matsushita Memorial Library and published in company histories. In particular we have searched for any mentions of bureaucratic control (for ex. formal rules or measures, structures, systematic information channels etc.) and cultural control (for ex. shared values and norms, symbols, rituals, socialization etc.). We have also paid attention to any mentions about relationship between elements of these two modes of control and contextual data such as time and the change in number of employees and company size.

The Founding Period: 1918–1932

Konosuke Matsushita established the Matsushita Electric in March 1918 together with two of his close friends, his wife and a younger brother in law (Kotter, 1997). The main products at the time were attachment plug and two-way sockets designed by Matsushita himself and insulator plates for electric fan bases ordered by Kawakita Electric. Despite initial difficulties, the level of sales increased steadily as a result of relatively good quality and low price of products manufactured by Matsushita Electric (Matsushita, 1988). Consequently Matsushita Electric was able to hire new people and grow from initial five members to 25 employees by the end of 1918. In the following years, the company continued to grow steadily, reaching the level of 50 employees by the end of 1923 thus joining the ranks of middle-sized companies.

In this initial period, Matsushita's management style could be characterised by such elements as: management based on the most trusted employees (close friends or blood relatives), thorough socialization of new employees, who were treated as family members, the transfer of values such as hard work and self-development and finally setting out hard expectations towards those in managerial or supervisory positions (Kotter, 1997). Apart from showing care and concern for his employees and being a firm leader, Matsushita focused on developing the cooperation and group spirit of his organization. In 1920, he formed an employee organization called Hoichi-kai (lit. 'One-step society'), which through various events fostered a spirit of unity and common purpose between the management and employees of Matsushita Electric. The name of the society symbolized that both the management and employees were step-by-step pursuing a common purpose (Matsushita, 1988). The Hoichi-kai had its own code of conduct, which later became the basis for the "Company Creed" and the "Pledge" formulated and adopted by Matsushita Electric in March 1929.

Table 3 | Number of Matsushita Electric employees (1918–1932)

Year	Number of employees
1918	25
1919	30
1920	32
1921	35
1922	40
1923	50
1924	70
1925	unknown
1926	unknown
1927	unknown
1928	300
1929	477
1930	unknown
1931	886
1932	1102

Source: Matsushita Electric Industrial Co., Ltd. Shasi-Shitsu (1968),
The fifty-years-history of Matsushita Electric Industrial Co., Ltd. (in Japanese).

Company Creed

In full awareness of our responsibilities as manufacturer, we will devote ourselves to the progress and development of society and the well-being of people, thereby contributing to the growth of human civilization.

(Source: Matsushita, 1988, p. 226)

Pledge

We pledge to work together, in the spirit of mutual trust and thorough selfless devotion to our jobs, for continuous improvement of corporate and personal performances.

(Source: Matsushita, 1988, p. 226)

The “Company Creed” and “Pledge” were the first ever attempts to clearly articulate and formally put in writing the basic management philosophy of founder Matsushita Konosuke. They were then further developed to finally take the shape of a set of business principles announced to 168 staff employees on May 5th, 1932 at the Osaka Central Electric Club Auditorium (Kotter,

1997). The day of the announcement of business principles has also become a founding day of the company and has been commemorated ever since as the day in which the true mission of the company has been formulated.

The Period of Fast Growth: 1933–1945

The years between 1933 and 1945 are the years of rapid growth and as the scale operation grew the formalization of organization followed. In 1932 Matsushita Electric has already employed more than 1000 people and by 1942 it has experienced a rapid expansion to more than 10 000 employees. By the end of Second World War in 1945 Matsushita Electric had 26 800 employees.

Table 4 | Number of Matsushita Electric employees (1933–1945)

Year	Number of employees
1933	1597
1934	2188
1935	2874
1936	3545
1937	4077
1938	4668
1939	7662
1940	7926
1941	9346
1942	11260
1943	14061
1944	24368
1945	26832

Source: Matsushita Electric Industrial Co., Ltd., Shasi-Shitsu (1968), *The fifty-years-history of Matsushita Electric Industrial Co. Ltd.* (in Japanese).

In the beginning of 1930's the rapidly growing number of employees required implementation of some additional formal mechanisms of control. On May 5th 1933, the second commemoration of the company founding, Konosuke Matsushita introduced a new type of organizational structure called the division system. Organizational changes were followed by changes in the legal form and in December 1935 Matsushita Electric became a stock company with a founding capital of 10 million yen. Former specialized divisions became nine separate companies, which were operating under a roof of Matsushita Electric group, which made it similar to many

zaibatsu groups at the time. Divisional structure was supplemented with strict financial control, designed to enhance entrepreneurial efforts and managerial culture of so-called “hungry spirit” (Bartlett, 2009). Apart from major structural changes, Konosuke Matsushita had introduced much more systematic approach to personnel management. In 1932 a full-fledged implementation of personnel management system took place. Even though there were some work regulations prior to 1932, there was not comprehensive workforce policy in Matsushita Electric. In July 1933, he institutionalized morning and evening employee meetings and implemented the rule of reciting company principles. These principles were also put into writing. As the number of employees grew the systematic and institutional development of employees became an issue of concern. As a result, in April 1934 the Matsushita Electric Employee Training Institute has been established. The goal of this organization was to develop and educate next generation of core employees laying the grounds for the future expansion. In April, 1936 a factory workers training facility has been set up within the institute framework. Line employees were not only taught skills necessary to perform their work but were also subjected to an intensive socialization process, which shaped their attitudes towards work and self-development. These institutional developments were further supported by the introduction of 6-day working week in May 1936, where Sunday became a day free of work, which should be utilized for reading, sports or other forms of self-development.

The Second World War disrupted most of the company internal initiatives and original development plans, however it is possible to say that the period from 1933 to 1945 Matsushita Electric has experienced an increase of bureaucratic control including formalization, standardization and systematization of its operations and personnel management.

The Post-war Years: 1946 onwards

In the period after the Second World War we can observe some revisions and mutual reinforcing mechanisms between cultural and bureaucratic modes of control established in the previous two periods of company development. Despite post surrender confiscation of its foreign factories, Matsushita Electric managed to survive and was recognized by occupation administration as one of major Japanese companies. The shock of war and surrender had its influence on company culture and paradoxically has strengthened it even more. In the years following 1946 Matsushita has changed company song and developed revised versions of company creed and pledge, which has been then used for many years. Company principles remained unchanged and were used to socialize and train new employees entering company after the war. Even though there was an inauguration ceremony and short training for new employees, after the war it took a form of an intensive, planned course that took several days during which employees were familiarized with company values. This kind of training takes place until now. One event is particularly revealing when it comes to the level of devotion and commitment of Matsushita Electric employees. Due to its size Matsushita Electric has been by occupation administration as one of *zaibatsu* companies and consequently its foreign assets were confiscated, its 17 domestic subsidiaries became independent companies and the founder Matsushita

Konosuke was forced to relieve his post as the president of the company. In response to this decision the newly founded labour union of Matsushita Electric managed to collect more the fifteen thousand signature from employees and their families asking to reinstitute Konosuke Matsushite to his post. This episode very well illustrates the commitment of Matsushita Electric employees in the post-war years. This attitude remained strong also in the years to come and became a symbol of Panasonic even as the company grew bigger and more diversified.

In the previous paragraphs we have looked at the dynamics of cultural and bureaucratic control within Matsushita Electric and their mutual relationship over the company life cycle. In accordance with the previous literature we have found that number of employees has been an important variable resulting in the shift from initial cultural control to a more bureaucratic one in the second stage. This bureaucratic control however has been used mostly to reinforce and popularize rules, values and attitudes of company culture, thus contributing to and resulting in strong commitment of employees and further development of company culture in the post-war period.

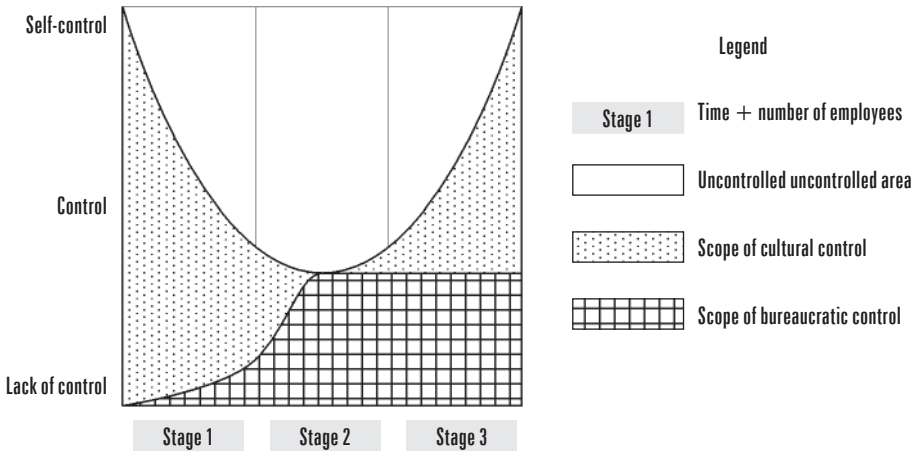
| Discussion

Matsushita Electric is a perfect example both of how cultural and bureaucratic control changes over the years and also how their relationship changes. As we have demonstrated in the first years, the company has been mostly managed by the personal influence, charisma and direct management style of the founder. In the second stage, as the direct management style became unfeasible the founder initiated massive formalization, systematization and bureaucratization of the management. Initially informal values became formally written down codes of conduct for the purpose of organized training and development of growing number of employees. In this sense, bureaucratic rules were gradually substituting culture as a mode of control. In the post-war years, the company survived mostly owing to its formal structure as the founder and the leader was relieved from his post. The bureaucratic structure served its purpose providing basic stability and continuity, while values imprinted in the employees' minds through a socialization and training processes contributed to a high level of commitment and motivation of Matsushita employees. As a result, the founder could return to the company and continue building an even stronger company culture in which bureaucratic and cultural modes of control continued to supplement and reinforce each other. On the basis of the literature review presented above and using the case of Matsushita Electric as an example we would like to draw a theoretical model presenting the dynamics of cultural and bureaucratic modes of control over the life stages of the organization. In the following figure, we present a theoretical conceptualization of dynamic relationship between the culture and bureaucratic control modes over the stages of the OLC.

The above model presents the scope of potentially controllable behaviours of organizational members and shows how it is covered by the two modes of control in different stages of the OLC. The Y axis model represents the gradual increase of control beginning with "lack of control",

through “control” up to the ultimate state of control entitled “self-control”. The X axis represents three stages of the organizational life cycle as bundles of time and number of employees, which could be understood as the most important variables in the debate about organizational control. The three-stage process of the organizational evolution in our model is based on previous models of OLC and begins with the setup of operations in the first stage, follows to the maximization of scale and efficiency of existing operations in the second stage, then in the third stage it focuses on improvements, responsiveness and innovations (Cho, 1994; Galbraith, 1982; Hanks et al., 1993; 1995; Kazanjian, 1988; Lester et al., 2003; Miller and Friesen, 1984; Quinn and Cameron, 1983). The underlying assumption visible from the model is that both the scope and mutual relationship of two modes of control change in each stage of the OLC.

Figure 1 | The dynamic stage model of organizational control



In the first stage, organization is focused on setup operations, and the scope and scale of its operations are limited. This stage represents the development period of Matsushita Electric in the years 1918–1932. In the beginning of this period, Matsushita Konosuke was able to control the behaviour of its employees through his personal influence, family-like atmosphere and the process of socialization through live-in apprenticeship. The self-control and commitment of employees at the beginning came from the fact that they were mostly family members of Matsushita’s family, and their shared values as well as their fate relied on the success of the business they founded. However, as the organization grew from small to medium and from medium to big, the self-control of employees’ behaviours was impossible to maintain. As a result, the scope of behaviours controlled by direct informal management style and values gradually decreased. This view is consistent with previous studies, which find that cultural control tends to decrease as organizations grow. As far as bureaucratic control was concerned it was minimal, and mostly restricted to financial controls as basic mechanisms serving Matsushita to get the information about his business and possibilities of development. The interesting thing about financial data in the beginning of Matsushita Electric

was that even though Matsushita tended to focus on cultural control throughout the entire period, he also used financial statements a mean of integrating employees and educating them about common fate of the company (Gould, 1970). This is represented on our model in the form of bureaucratic control slowly developing and substituting areas previously covered by cultural control. It represents an underlying assumption about the relationship between bureaucratic and cultural mode of control according to which the former is incorporated within the latter. This perception is consistent with previous studies claiming that cultural control and bureaucratic control ultimately serve the same purpose of securing predictable patterns of behaviour of organizational members, at the same time recognizing that core cybernetic control systems are embedded in a wider context of organizational culture (Flamholtz et al., 1985). This mechanism, although initiated in the first stage, achieved a full-fledged scale in the second, bringing the issue of bureaucratic control to the forefront of management in the Matsushita Electric.

In the second stage cultural mode of control has reached its limits. Due to a rapid increase in number of organizational members, direct communication and achievement of “unity of thought and action” became unfeasible. Rapidly increasing scale and scope of operations exposed inherent limitations of cultural control performed in an informal and personal manner. Consequently, in the second stage we observe an increase in the scope of bureaucratic control, which becomes a basic tool for reducing variability of employees’ behaviours. Bureaucratic control in the shape of formalized procedures, communication channels and corporate rules will not only be performed in order to satisfy immediate legal or functional requirements of organization but also to regulate or secure predictability and transparency of personal interactions between large numbers of organization members. In case of Matsushita Electric this represents years from 1933 to 1945 during which previously established rules were formally written down and popularized through formal channels of communication and embodied in the form of new organizational structure, which forced managers to take more responsibility for their own actions. Despite decentralizing his company through division system, Matsushita Konosuke maintained highly formalized management system based on balance sheets and financial controls, which allowed him exerting both bureaucratic and cultural control over the entire organization. It is worth noticing, that despite its rapid expansion bureaucratic control will reach its peak toward the end of stage. This comes from the fact that bureaucracy will always be contained within the scope of culture, in line with the logic that written directions have to be initially formulated in an unwritten form and then are gradually reified for the purpose of passing to next generations of organizational members (Walsh and Dewar, 1987). Consequently, we assume that bureaucratic control emerges as a codified representation of rules and values predefined by organizational members and initially extended in the form of cultural control. Since rules first have to exist in the conceptual form shared by a group of organizational members and only then they can be formalized, we assume that the reverse situation i.e. cultural control being contained by bureaucratic one is unlikely, if not impossible. As a result bureaucratic mode of control will be able to provide a degree of control over behaviours but will never surpass the control provided by cultural mode. The relationship between the bureaucratic and cultural mode of control could be

largely seen as substitutive but to a certain degree which boundaries are set out by values and assumptions agreed upon in the previous stage. In this stage the synergy between bureaucratic and cultural modes of control is established and gives first signs of mutual reinforcing effects, which will however be visible in their full form only in the third stage.

The third period represents a time when organizational culture is gradually developed and the scope of cultural control begins to grow again on the stable basis of bureaucratic control. In Matsushita Electric this is represented by a post-war period in which company managed to survive despite forced retirement of its founder. In the post-war period Matsushita Electric employees began to exhibit a surprising levels of self-control and commitment, which surpassed anything that has been formally required of them. As a result, although bureaucratic controls remained in place their relative importance, as compared to cultural control, decreased gradually. In the later years increasing complexity and uncertainty of organizational operations, was addressed primarily by the means of cultural control and there has been an observable increase in divergence between the scope of behaviours regulated by cultural and bureaucratic modes. While the scope of bureaucratic control mode remained stable, with occasional adjustments of criteria within the extent of originally defined mechanisms of goal setting, evaluation, measurement, feedback, rewards etc., the scope of cultural control gradually increase through the accumulation and internalization of role models, behavioural patterns, organizational myths, implicit knowledge and sophistication of socialization mechanisms. This accumulation permitted the regulation of behaviours not covered by bureaucratic mode of control. As a result the gap between the scopes of control became obvious in favour of cultural mode of control, which came to be perceived as a superior one. At the same time, the bureaucratic control came to be perceived as something obvious and superfluous resulting in the collective amnesia or proverbial “the priest forgets that he was a clerk” syndrome. Cultural control therefore became the ultimate mode of control embodying the entire wealth of implicit knowledge and experience accumulated over the years. Although such mode of control guaranteed superior performance and became a foundation of unique and difficult to imitate organizational capabilities, it also became increasingly difficult to transfer or replicate.

Summing, up we find that it might be revealing to understand the relationship between bureaucratic modes of control and cultural one through the analogy to Herzberg’s famous Two-Factor Theory of human motivation (Herzberg, 1959). “Hygiene factor”, in the context of control would be represented by a bureaucratic mode of control, while cultural mode of control could be compared to “motivators”. The rationale behind drawing such analogy is the fact that the main role of bureaucratic control was to provide a foundation of stability, objectivity and continuity on which cultural mode of control could be developed while increasing commitment, flexibility and intrinsic motivation of employees. Consequently trough drawing analogies to Herzberg’s Two Factor Theory we might be able to put forward the following hypothesis:

H1. In large scale organizations cultural control cannot be exerted without a stable basis of bureaucratic control.

Additionally to the hypothesis above, following two hypotheses can be put forward to be tested in future empirical studies:

H2. The relationship between bureaucratic and cultural modes of control over the stages of OLC will change from substitution to reinforcement.

H3. The scope of bureaucratic control will not exceed the scope of cultural control.

| Conclusions

The model presented above is based on an exploratory research of a single case study of Matsushita Electric, thus it has some important limitations.

First of all, although the model assumes manages to illustrate the dynamic relationship between two modes of control and various complex concepts, it is unable to fully demonstrate the internal dynamics and changes that might take place within these concepts. For example it assumes a stable inflow of employees but it does not consider the issue of outflow of organizational members. This assumption comes from the socio-cultural context in which our case study has been embedded. Japanese companies were known for their lifetime employment practices and stable internal labour markets. It is therefore possible that in an environment with a less stable workforce there might be some additional disruptions or lags within the process of developing and implementing cultural control. Similarly the model is unable to presents potential changes within the concept of bureaucratic and cultural control such as changes in values, underlying assumptions or changes in written rules and regulations. Such changes might, and in fact sometimes do, lead to conflicts between culture and bureaucracy, which might in turn disorient the employees and inhibit the process of implementing control or developing commitment. Secondly, as it was mentioned before the model considers time and scale of organization as two major elements constituting stages of the OLC. This has been done for the sake of simplicity and clarity. However a number of previous studies present stages of OLC as far more complex bundles including strategic goals, technology, authority etc. All of these issue may influence the desired mode of control and influence their mutual relationship. Thirdly, since the study was an exploratory one, considerably more research is required to support and further develop the model. Further study should focus both on an in-depth study of Panasonic history and on its expansion in the post war period. In fact, in his later writings Konosuke Matsushita actually condemns bureaucracy as one of the biggest enemies blocking a free flow of information within the organization (Matsushita, 1984). This attitude could be attributed to the colloquial understanding of the bureaucracy, however it might also be a sign of “the priest forgets that he was a clerk” syndrome. This issue requires more in-depth study of Matsushita writing compared against the background of challenges that Matsushita and Panasonic faced at the time.

Implications and explanatory potential in the Polish context

Despite the exploratory nature of the current case study and the obvious limitations of the model described above, we believe that the proposed framework has some significant explanatory potential both from the point of view of academics and practitioners.

First of all, it gives some insights into the dynamics of the relationship between formal and informal control over the stages of company life cycle. It shows that the two modes are not simply opposing each other but rather enter in a complex relationship of mutual substitution, reliance and reinforcement. Since model is consistent with recent findings about the coexistence of formal and informal modes of control in various organizations, it might be argued that is potentially generalizable beyond the sample of Japanese companies. Secondly, by bringing together well-developed fields like bureaucracy and organizational culture, organizational control and commitment, it opens the door to a number of cross-sectional studies within the organizational theory.

Finally, the model has a significant explanatory potential in relation to contradictory statements about required modes of control made by Japanese and Polish managers in subsidiaries located in Poland. As Japanese managers tend to be dispatched from mature organizations in which culture constitutes the dominant mode of control they might exhibit a tendency to downplay the role of bureaucracy and formalization even when being transferred to newly established local subsidiaries. Initially any gap in perception remains latent, since in the period preceding the start of operations the control is based on informal, direct communication with limited numbers of local managers, who are usually undergo a socialization process in Japanese headquarters. However, as subsidiary approaches a second stage, the gap in perception of desired mode of control between local and Japanese managers might wide rapidly. Such gap is reinforced by the organizational structure of local subsidiaries in which Japanese managers continue to exert direct control over limited number of local managers, while the latter are expected to seize control over rapidly increasing number of employees. As a result, while local managers experience increasing dissatisfaction with ineffective cultural mode of control Japanese expatriates remain unaware of its' limitations. While presenting the aforementioned explanation for the source of gap between Japanese and local managers, model presented in this article offers a plausible solution. An example of early years of the Panasonic Corporation clearly shows that at some point the introduction of a bureaucratic mode control is not only inevitable to maintain control but also necessary to allow the further development and internalization of organizational culture.

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