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## **The complementarity of informal and formal controls: the enhancement of Simons' Levers of Control framework**

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### **Abstract**

In this study, the role of informal control within Management Control Systems (MCS) is explored. In particular, it addresses calls from prior research for the examination of how informal controls operate within Simons' Lever of Control (SLOC). While this framework was originally designed for the implementation of strategy by senior managers within large corporations, this paper argues that, with modification, the concepts behind it can be applied to smaller organisations. This research explores the interconnections between informal and formal controls within independent UK hospices, with an income of between £5m and £15m. Through five case studies of these hospices, three patterns of control are identified: ethos, responsibility and judgement which are incorporated into a new performance management framework. While the research was undertaken within a voluntary sector context, its conclusions may have wider application across all sectors, particularly for small organisations, where the use of informal control complements formal controls.

**Key words:** Informal control, Simons' Levers of Control, voluntary organisations, SME, performance management, management control

## 1. Introduction

Within management control literature, there has been a long history of examining the role of informal as well as formal controls within organisations (Otley, 2016). The seminal work of Burns and Stalker in 1961 challenged the assumption that successful organisations were controlled through formal or mechanistic structures and processes, suggesting that innovation was more likely to be fostered in environments with organic controls (Burns and Stalker, 1994). While notions of informal control have been loosely defined, they are often associated with social, personnel and cultural controls (Ouchi, 1979; Merchant and Van der Stede, 2012). Simons' (1995) Levers of Control (SLOC) focuses on the formal controls, needed by senior managers to implement corporate strategy in large organisations. However, its application does not have to be limited to this purpose (Tessier and Otley, 2012). The absence of informal control within its original design has been acknowledged in the literature (Collier, 2005; Arjaliès and Mundy, 2013; Martyn, Sweeney and Curtis, 2016) but little empirical research has been undertaken to explore how informal controls might also be included within such a framework. This paper therefore seeks to understand the interrelationships between informal and formal controls and its implications for the SLOC framework. This paper proposes a new framework for performance management, incorporating informal as well as formal controls, that is relevant to all sizes of organisation and all sectors.

Informal control remains an elusive concept within debates over how effective management control is best exercised. Early management control systems (MCS) primarily focused on formal controls that are hierarchical, quantitative and predominantly financial (Langfield-Smith, 1997; Berry *et al.*, 2009; Otley, 2016). Anthony's definition in 1965 remains influential today, defining control as the achievement of objectives through the

efficient and effective use of resources (Berry, Broadbent and Otley, 2005). The contemporary use of performance measurement systems, such as the balanced scorecard in the private sector and new public management in the public sector are both testament to weight given to formal management controls. Nevertheless, this mechanistic view of control systems has been challenged, informed by the seminal work into organic and mechanistic ideal types of organisations by Burns and Stalker (1994). In their view, an informal organisation operates alongside the formal one and they look to the CEO to provide leadership which can combine the formal and informal “in a complex social process”(Burns and Stalker, 1994, p. 104). The importance of informal controls is now widely recognised, with the progression of conceptualising control from Anthony’s definition to ideas of management control systems and packages which incorporate broader concepts of control (Chenhall, 2003; Malmi and Brown, 2008; Otley, 2016). However, the lack of clarity over definitions and characteristics of informal control remains. Consequently, understanding how informal control actually operates in practice is acknowledged to be an under researched area.

Conceptualisation of informal control has been impeded by the lack of an unequivocal definition (Tucker, 2019) , although some concepts are generally recognised in the literature. Early concepts of informal control have proved robust. Clan control, identified by (Ouchi, 1979) is based on shared values, traditions and ways of behaving. This was later refined with two categories by Merchant and Van der Stede (2012). Personnel controls, built on the intrinsic motivation and the loyalty of employees, can be influenced through recruitment and training, and cultural control which encourages mutual monitoring through shared beliefs. These are contrasted with the formal controls identified by Ouchi (1979) as output, results and action. Together these formal and informal concepts of control are still used to frame discussions on performance management (Chenhall, 2003; Dekker, 2004; Ditillo, 2004; Kilfoyle, Richardson and MacDonald, 2013; Stouthuysen, Slabbinck and Roodhooft, 2017).

Understanding the nature of informal control remains problematic, in part due to the negative associations in how it is described in accounting literature. It is frequently defined by what is not or the absence of control, “as a vague, unstated, null proposition” (Tucker, 2019, p. 222). Langfield-Smith (1997) describes informal control as “not consciously defined”. Pitkanen and Lukka (2011, p. 127) suggest that informal feedback is “unspecified” or viewed as the “opposite to formal management accounting system feedback”. Kilfoyle et al.(2013) go so far as to reject the term informal, preferring the term “vernacular” to describe accounting information, generated by employees, which lies outside established systems. Nevertheless, positive concepts of informal control focusing on the importance of values and beliefs are clearly evident (Pitkänen and Lukka, 2011; Stouthuysen *et al.*, 2017; Laguir, Laguir and Tchemeni, 2019). Chenhall et al. (2017) observe the active contribution of values in identifying the “expressive” role of performance measurement systems. They argue that the beliefs of organisational members should not be regarded as a nuisance but can generate energy and commitment. Tucker (2019) contends that there had been no equivalent definition to that given to formal control set out by Simons (1995) as formalized procedures and systems that use information to maintain or later patterns in organisational activity. Tucker (2019, p. 227) offers a definition which consciously mirrors Simons’ definition and encapsulates the tension between the negative connotations of the absence of formal control with productive qualities of informal control: “the unplanned, spontaneous and non-codified information based routines, procedures and practices that collectively generate and transmit information through vertical and lateral interpersonal relationships prevailing within an organisation to influence maintain or alter patters in organisational activities.” (Tucker, 2019, p. 227). He subsequently identifies four types of informal control – self, social, professional and clan control.

The importance of including informal control in discussions on performance management is now recognised. Arguing that management control research needs a more comprehensive approach, Malmi and Brown (2008, p. 287) have developed a comprehensive management control framework comprising a loosely coupled collection of controls as a “package”. Cultural controls are pictured at the top “to indicate they are broad yet subtle controls” including clan controls, values and symbols (Malmi and Brown, 2008, p. 287). Alternative views have been presented by those who argue that management control constitutes a “system” with a tighter degree of coupling between controls but nevertheless recognising the pivotal role of informal control (Grabner and Moers, 2013; Bedford, Malmi and Sandelin, 2016). Some argue that formal and informal controls coexist and are intertwined (eg Pitkanen and Lukka, 2011). Others explore the complementary nature of formal and informal information with Kilfoyle et al. (2013) arguing that formal information systems are unlikely to meet all management needs. Some recognise the interdependency of formal and informal control, as a “creative tension” (Flamholtz, 1983; Daft and Macintosh, 1984; Chenhall and Morris, 1995). Stouthuysen et al. (2017) explore how informal control can affect, both positively and negatively, the operation of formal controls (output and behaviour) within strategic alliances. Norris and O’Dwyer (2004) argue that informal and formal controls have to be congruent, warning of the danger of mixed messages from senior management if the two systems are not perceived to be consistent. Chenhall et al. (2017) observe tensions between the expressive and instrumental roles of performance measurement systems. Now that there is more clarity over its definitions and role, and its importance is accepted, there have been calls for more research into how informal controls operate. Tucker (2019) argues that unless we unpack the “black box” of how formal and informal controls combine, there is a risk of reaching distorted findings and erroneous conclusions about management control systems. However, the inherent difficulties of researching something

that is intangible remain Tucker (2019), resulting in high research costs and time (Kilfoyle *et al.*, 2013).

The importance of informal control within small organisations has long been recognised. Sandelin (2008, p. 324) cites earlier research, such as Flamholtz (1983) and Chenhall, (2003) suggesting that ‘informal modes of control typically characterize small firms’, although his own study focused on the growth, not size, of organisations. Collier (2005) studied informal control in a small entrepreneurial organization, arguing that this enabled the study of informal controls where detailed interactions between employees could be observed. More significantly, Spillecke and Brettel (2014) find that informal control is an important driver of entrepreneurial and learning orientation in SMEs. Heinicke *et al.* (2016) argue that size is a moderating factor in firms promoting a flexible culture while Hosoda (2017) demonstrates how informal controls promote a culture of shared values in the implementation of CSR in an Japanese SME.

## **2. Theoretical framework**

This research uses the management control framework, Simons’ Levers of Control (SLOC), originally designed to address the needs of senior management in large corporations. Simons (1995, p. 5) declares that he is “concerned primarily with *formal* routines and procedures...that are information-based systems..(and) which are used to maintain or alter patterns in organisational activities”. He identifies four strategic variables which each need to be controlled: core values; risks to be avoided; critical performance variables; and strategic uncertainty. Each variable needs to be controlled by a lever: belief; boundary; diagnostic; and interactive respectively (see Figure 1). Central to this framework is the dynamic tension between the levers and how they interact with each other. The concept of balance is crucial to

understanding how managers use MCS in both controlling and enabling ways in order to generate dynamic tensions (Mundy, 2010, p. 502). His first lever of control, belief, is an “explicit set of organisational definitions that senior management communicate formally and reinforce systematically to provide basic values, purpose and direction for the organisation”(Simons, 1995, p. 34). He argues that it is communicated by documented credos, mission statements and statements of purpose. They should be value-laden, inspirational and broad enough to include all organisational practices but are too vague for a platform from which to determine performance measures. Belief controls, according to Simons, operate in tandem with boundary controls, setting limits of acceptable behaviours through codes and rules. He defines these as systems which “delineate the acceptable domain of activity for organisational participants” who “establish limits, based on defined business risks to opportunity seeking”(Simons, 1995, p. 39). Simons suggests that there are two types of boundary control. First, business conduct defines acceptable behaviours derived from society’s laws, organisational belief systems and professional codes of conduct. Second, strategic boundaries are set through the strategic planning processes, defining acceptable areas of business opportunity and capital expenditure and limiting the activities of opportunity seeking employees. Thus, two of Simons’ constructs - values and risks to be avoided – are balanced by employing belief and boundary levers of control. Simons (1995, p. 59) describes his third lever as diagnostic control, or the “feedback systems which are the backbone of traditional management control.” They “monitor organisational outcomes and correct deviations from pre-set standards of performance”(Simons, 1995, p. 59). Controlling intended strategies, they report outcomes against predicted goal achievement or critical performance variables that can be measured, are objective, complete and capable of being influenced by individuals. Simons’ (1995, p. 95) definition of his fourth, the interactive lever of control, is the “formal information systems managers use to involve themselves regularly

and personally in the decision activities of subordinates”. He explains that “interactive control systems focus attention and force dialogue throughout the organisation” (Simons, 1995, p. 96). Just as belief and boundary levers work in tandem, he argues that interactive and diagnostic controls are complementary, balancing strategic uncertainty with critical performance variables.

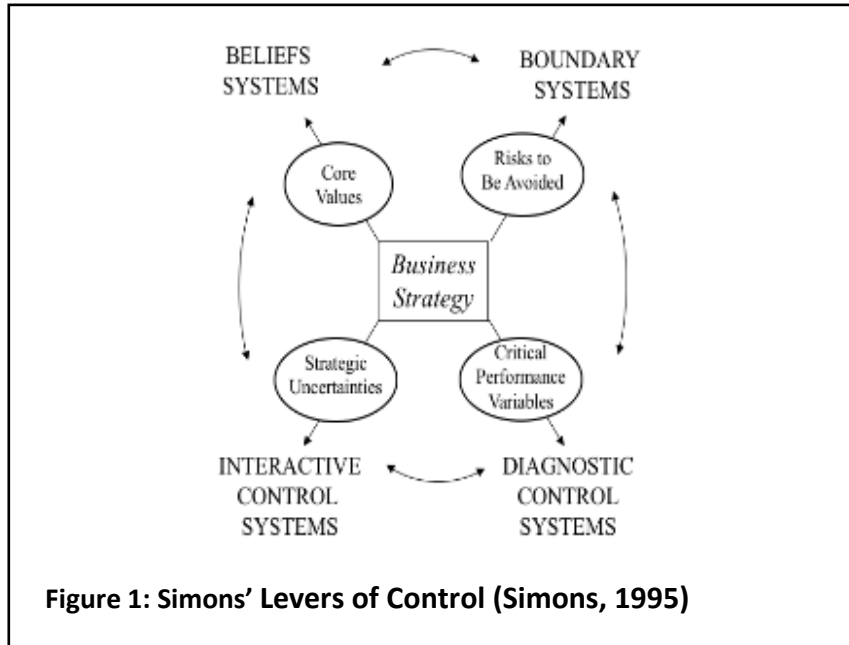
While the original focus of the SLOC was on formal control within large corporations, it is argued here that his LOC approach can be applied to a wider range of organisations within all sectors. Simons originally designed the SLOC for senior managers implementing corporate strategy in large organisations, deriving his framework from his observations of private sector organisations. Distant from their subsidiaries and their employees, and managing large global organisations, senior managers are reliant on formal controls. This narrow interpretation of control has been challenged and the framework is considered suitable for extension (Berry *et al.*, 2009). Collier (2005) criticises Simons’ definition of belief controls for being too restricted, excluding wider cultural influences. He argues that group norms, socialisation and culture are, to some extent at least, implicit in belief systems. Tessier and Otley (2012), in their theoretical paper on the limitations of SLOC, distinguish between two types of control – technical (procedures, rules) and social (values, norms) – amongst a number of other enhancements to the framework. Yet, much of the research applying SLOC only refers to informal control briefly while acknowledging that this needs to be studied further (Tuomela, 2005; Mundy, 2010). Consequently, informal control within the SLOC has been identified as a potential area for further research by many including Martyn *et al.* (2016, p. 294): “Further consideration of the usefulness of Simons’ framework to examine informal controls should prove useful in further research”.

Despite Simons’ original intention for his framework to be used by senior managers implementing corporate strategy by means of formal controls, the SLOC was chosen for this



research due to its distinguishing feature: the dynamic tension between its different levers.

While Malmi and Brown (2008) have drawn up a comprehensive framework incorporating informal controls, these coexist rather than being interdependent. In contrast, the SLOC encapsulates the balancing of the “tensions between freedom and constraint, between empowerment and accountability, between top down direction and bottom up creativity, between experimentation and efficiency”(Simons, 1995, p. 4). The tension between formal and informal control is notably missing from the SLOC, arguably as it not the foremost concern of senior managers implementing corporate global strategy. However, using this framework within small organisations facilitates research into the additional and complicated interactions between informal and formal control. Simons describes the levers in terms of positive and negative forces, citing the “yang” and “yin” in Chinese philosophy. Belief and interactive controls act together as “yang”, or positive influences, described as forces of sunlight and warmth (Simons, 1995, p. 57). Boundary and diagnostic controls are described as the “yin”, or negative influences, forces of darkness and cold. “Their collective power lies in the tension generated by each lever”(Simons, 1995, p. 5). This view is supported by Martyn et al. (2016, p. 283) who argue that “each of these variables is highly interdependent and thus must be considered together or an incomplete analysis of the issues will emerge.” The importance of this dynamic tension is echoed throughout much of the research applying his framework (Bruining, Bonnet and Wright, 2004; Tuomela, 2005; Mundy, 2010; Plesner Rossing, 2013) yet there has been little empirical research into the tension between informal and formal control.



### 3. Research Design

Five UK independent hospices were selected, all small organisations, measured by revenue, number of employees and volunteers, but with different proportions of sources of funding (from statutory income, donations and trading revenue). They are named after famous nurses (Barton, Cavell, Guinness, Nightingale and Seacole) to preserve their anonymity in this research (see Table 1). The opportunity to be involved in this research was publicised via the Charity Financial Directors' Group to their members, to which two hospices responded and three further hospices were approached directly. Twenty-five semi-structured interviews were carried out with members of the Senior Management Teams and Trustees from the case hospices. This included a trustee from each hospice, all the CEOs as well as clinical, financial, business (fundraising and trading) and operational senior managers from case hospices. A set of pilot interviews was carried out between January to May 2014 with the other case hospices being visited between January to July 2015. Mission statements, strategic plans, external financial and clinical reports, internal management accounts and performance measurement

reports were also analysed in all five hospices. An interview protocol was drawn up, informed by the Ferreria and Otley model (2009) and the wider literature on management control. SLOC was not used to frame protocol questions but emergent themes were used to inform how SLOC might incorporate informal controls, particularly within the voluntary sector. Twenty-five interviews, typically 90 minutes long, were recorded, transcribed and then analysed by thematic coding using NVivo.

Broadbent and Laughlin (1997) and Otley (2016) recommend the use of case studies for understanding management control. With their rich empirical descriptions derived from a variety of data sources, they provide a highly suitable method for theory building (Eisenhardt and Graebner, 2007). They enable the study of management control, as a complex social phenomenon, including the relationships between formal and informal controls in the context in which they operate. They offer an appropriate research method to address the “how” and “why” questions (Yin, 2009). While formal controls can be analysed through the review of documents, informal controls are better understood through interviews of stakeholders. Using multiple cases evidence can also be more compelling, offering across case as well as within case comparison (Yin, 2009). The significant advantages were weighed up against the disadvantages of using case studies, such as generalisability, access and the demands of case study research on participants. These disadvantages are outweighed by the depth of insight such studies bring to understanding the intangible nature of informal controls.

Small organisations within the voluntary sector offers a rich source for the study of informal control due to the established practices and wide experience of using informal controls, and the importance and legitimacy of such controls within this sector. Given the diversity of organisations within the voluntary sector, hospices were chosen as a suitable sub-sector. Although voluntary hospices represent only a small part of the charitable sector with £1.5bn received in revenue in 2019 (Hospice UK, 2021), they are a clearly defined group within the

UK voluntary sector with the vast majority being small organisations. Hospices as small organisations face organisational issues, including funding pressures, complicated patterns of service delivery, outcomes shared with other providers and multiple stakeholders. These issues are not unique to the voluntary sector, with the concern for values, meeting the needs of different stakeholders and controlling intangibles being shared by small organisations across all sectors. Conclusions drawn from research in this sector can be applied to all sectors. Formal control systems within the private sector have been criticised for stifling innovation with a shift away from command and control hierarchies to flatter structures with cross functional teams and networks. (Chenhall and Morris, 1995; Hope and Fraser, 2003; Henri, 2006; Chenhall, Kallunki and Silvola, 2011; Otley, 2016). Employee empowerment with open, flexible communications and importance of local and arguably more informal control systems have increased (Nixon and Burns, 2005). The clear distinction between the sectors has become increasingly blurred (Kendall and Knapp, 2000) with all organisations operating in pluralistic contexts with multiple objectives (Chenhall et al., 2017). There is an increasing recognition of the importance of values, and the need to consult multiple stakeholders across all sectors, notably in the area of Corporate Social Responsibility (Arjaliès and Mundy, 2013; Laguir et al., 2019). Private sector organisations are also seeking ways to control intangibles, such as in knowledge intensive organisations (Ditillo, 2004) with the recognition of role of informal controls.

**Table 1: Characteristics of selected hospice cases**

<b>Hospice cases</b>	<b>Barton</b>	<b>Cavell</b>	<b>Guinness</b>	<b>Nightingale</b>	<b>Seacole</b>
Total revenue	£5-7.5m	£5-7.5m	£13m	£5-7.5m	£7.5-10m
Approx. % statutory income (NHS)	30%	20%	15%	40%	40%
Net assets	Under £12m	£5-7.5m	Under £14m	£5-7.5m	£7.5-10m
Surplus	Over £1m	-	£0.5-1m	£0.5-1m	-
Unrestricted funds	£7.5-10m	£5-7.5m	£7.5-10m	£5-7.5m	Under £5m
Numbers of employees	Under 200	Under 150	Under 400	Under 200	Under 150
Numbers of volunteers approx.	1,000	600	2,500	400	400

**Source: Author's analysis of Charity Commission financial statements**

## 4. Results

### 4.1 Belief

There is comprehensive evidence in all the case hospices of formal belief systems operating as described by Simons (1995). One CEO describes their hospice mission statement as a *“a physically written description of what we are trying to achieve...I think the first thing is being very open and honest and transparent and produce something that is simple easy to understand, has a clear sort of measurable direction of travel within the timeframe that has been set for it”* (CEO, Cavell). All case hospices are required to set out their charitable purposes or objectives in their returns to the Charity Commission, such as in the Trustees Annual Report. Additionally, they promote their mission and/or vision on their own websites, and some also include them in their Quality Accounts, an external clinical report, their Annual Reviews or Impact Reports. As Simons suggests, these are value-laden, inspirational and broad but not sufficiently detailed to determine performance measures. The case hospices share many common themes in their mission statements, referring to the provision of end-of-life or palliative care for those with life-limiting illnesses, seeking to educate and enhance the quality of life, by working in partnership with other providers and often serving a specific geographical area. Four of the five hospices have formally documented their values, using them alongside their mission and vision. As Simons (1995) envisages, formal mission statements are used internally for three purposes, communication, motivation, and determining priorities and are evident in all the case hospices. First, the case hospices communicate their mission statements formally within their organisations, through “state of the nation” speeches by the CEO, staff internal internet communications, posters and postcards. Second, the mission, vision and values have an important role to play in motivating and empowering staff, especially where their contribution to patients is indirect. *“Whether you are the person who is emptying the bins or the chief executive, you say my role*

*here is to make sure we deliver better care, that we're innovative and we have influence" (Business, Nightingale.)* Third, the mission statement helps in determining priorities with the increasing tensions between protecting their mission and becoming more commercially aware. *"We check back around quality and say if there are incidents which maybe relate to something that doesn't feel comfortable as an organisation; where does that fit with our values?" (CEO, Nightingale).* This research also shows how mission statements set limits, acting as the "yin", being used to define or set boundaries around their fundamental raison d'être in the absence of a fundamental private sector purpose of maximizing shareholder value and public sector service provision.

While formal belief controls are evidently operating in the case hospices, there is also ample evidence to show that spirit of the mission is fostered by far more than a formal statement of purpose. The ethos within the case hospices is intangible but undeniable. Cecily Saunders (2001) is credited with being the founder of the modern hospice movement and has said that it is as much about a philosophy as the buildings and their facilities. That philosophy promotes a holistic approach to psychological and spiritual needs as well as physical care of the terminally ill. Hospices are committed to facilitating a "good death", by protecting the quality of life of patients and their families. When asked about how the mission and vision statement actually affect individual members of staff, interviewees suggest that formal documents only have a part to play. Staff motivation is not extrinsic through reward, but intrinsic.

*So it'll no longer be the traditional vision statement on the wall as you walk into the building; so actually this is about how this organisation operates, behaves, represents itself. And that for me, when I think about a vision and how to create a vision and how I think it's successful, that would be the approach (Business, Cavell).*

It can be argued that formal mission statements are the products, not the drivers of motivation. *“This is your vision, not my vision” (CEO, Nightingale)*. Interviewees comment on how staff are willing to volunteer for fundraising events as they are so dedicated to the mission. The strength of conviction is evident amongst the volunteers, with no obvious equivalent in the private sector. The care director at Barton observes that *“what they volunteer for is something that they value.”* and the Trustee at Cavell comments *“If I go back to my volunteers – the little old ladies in the shops – they're there because they want to give something back and they want to volunteer. It's a good thing to do”*. Leadership is explicitly mentioned by three hospices in connection with mission statements and how the vision and mission is actually adopted within the organisation. When asked about how he took the vision and make it happen, the CEO at Barton replied what *“you are actually delving into is leadership...so much of the ethos of the hospice comes from informal leadership.”* It is much more than a document:

*the important thing for me is about having a vision, being a strong leader, making sure that the organisation can say, whoever you are you can articulate where you think the organisation's going. But actually the work really starts now because I think the next stage is about us really unpicking what we say about our values and our beliefs. What do we mean by that? What do we mean by our mission? (CEO, Nightingale).*

Three respondents from different hospices comment explicitly on the need for senior members of staff to provide appropriate role models.

*I think they (values and vision) are so interlinked and so closely related, and I think for me the values are the delivery of the vision. It might sound a bit strange. So your*



*values are things that you want to do, believe, behave, deliver, which delivers the vision (Business, Cavell).*

The case hospices therefore provide good examples of how informal belief controls complement formal ones. As small organisations, they are not reliant on formal documents to communicate their mission; organisational purpose and values are much more conspicuous in the actions of leaders and colleagues.

#### **4.2 Boundary**

Simons' (1995) boundary lever combines formal strategic planning processes with external regulation and internal policies. Malmi and Brown (2008) identify cybernetic and planning controls as the second layer of their MCS package, including budgets. They suggest a third layer made up of administrative controls which includes governance and organisation structures as well as policies and procedures. Tessier and Otley (2012) extend SLOC to both strategic and operational controls within the boundary lever. As with belief systems, there is ample evidence of the formal boundary structures and processes within the hospices. All the case hospices engage in strategic planning, albeit from top-level communication of strategic narrative objectives with action plans to fully-costed detailed five year plans. All five case hospices prepare annual budgets with monthly reporting against cost centres, although most acknowledged that there could be improvements in effective budgetary control. There are clear governance structures in all hospices, with organisation charts, defined reporting lines, programmes of Board and committee meetings, internal and external reporting requirements

and publication of policies and procedures. Yet, in addition to the imposed constraints that Simons (1995) envisages, hospices demonstrate a wider sense of self-imposed responsibility. They are not merely accountable through reporting structures but have a “felt-responsibility” (Ebrahim, 2003). While there are clearly constraints on CEOs, notably a strong Board of Trustees, all CEOs spoke of their empowerment, not restrictions. Two spoke of the informal constraints, such as self-restraint, arising from professional boundaries and their commitment to mission. The board and senior management team create their own boundaries, set by their dedication to the hospices’ purpose. *“I buy into the philosophy then everyone else buys into the philosophy and no way will I do anything that harms this organisation” (CEO, Barton).* Informal controls are set by the culture of the organisation. *“It’s a natural process of inculcation whereby people just know” (CEO, Guinness).* Moral responsibility influences staff attitudes to spending money, with similar examples being cited by three of the five hospices. *“I mean we do consistently keep saying that that was someone running a half marathon, if someone’s wasted some money that someone’s endured 13 point whatever miles for ... that £60 that could’ve been dealt with better” (Finance, Nightingale).*

Simons (1995) argues that organizational participants can view boundary systems as either constraining or liberating, as freedom of action within specified bounds. “In a perverse way constraint creates freedom in which the inspirational role of beliefs systems can flourish” (Simons, 1995, p. 53). “Although boundary systems are essentially proscriptive or negative systems, they allow managers to delegate decision-making and thereby allow the organization to achieve maximum flexibility and creativity.” There are ample examples of this paradox in the case hospices, with hospice managers feeling liberated. *“And there is a lot of freedom to be had...freedom and accountability and responsibility that can be taken by an organisation” (Trustee, Nightingale).*

While some external stakeholders may set some formal constraints on how funding is spent, others exert influence setting informal boundaries on what a hospice does. Reliant on the community as the main source of funds, they are “*dependent on a grateful public as they recognise it could be me or mine*” (Trustee, Barton). Their dependence on funding brings a strong sense of moral responsibility: “*Social responsibility to the community...it’s what we do here and the fundraising community brings in most of our income and they expect us to support those families*” (Business, Guinness). It extends beyond patients to employees, with the case hospices being a “*large business in the local community...that means we have a responsibility to the community in all sort of different ways*” (CEO, Nightingale). This resonates with findings by Yates et al. (2019) who use Roberts’ framework to contrast socialising with hierarchical forms of accountability, showing how strong personal bonds and adoption of local, core values create accountability relationships. Some are more prominent than others reflecting the salience of those stakeholders (Mitchell, Agle and Wood, 1997) with donors particularly being able to exert influence. There is unanimity amongst interviewees, across all roles and hospice organisations, that the extent of funding affects the influence of the funder on the organisation. All five case hospices are fiercely protective of their independence (with statutory funding ranging from 20-40%). Where costs for certain services are fully paid by statutory sources, hospices accept that they are bound to do what is requested of them. Where there is “a paid bed” with all the costs being covered, “*the commissioners call the shots*” (Business, Guinness). However, where they receive a significantly lower proportion of statutory income, they assert their independence. “*Don’t try and force your business and processes on me because you only commission 26% of my services, I commission 74%*” (CEO, Barton). Formal boundaries are necessary in the highly regulated area of health care. Yet they are still complemented by a subtle and complex array of informal controls, such as the self-restraint of CEOs, the sense of moral responsibility of

staff and the influence exerted by external stakeholders. These can operate effectively in a small organisational context where the senior management team is working closely with the staff and volunteers.

### **4.3 Diagnostic**

Formal diagnostic information is evident in all hospices, including both financial and non-financial data. While external reporting follows similar formats, internal reporting and levels of analysis are varied. One hospice reports over 60 performance measures on a dashboard, a second aligns measures to its critical success factors, a third reports key indicators on a balanced scorecard and a fourth employs a detailed logic model, comparing objectives, inputs, outputs and outcomes. More interesting are the informal diagnostics being used. There is much evidence that shows how formal measures are complemented by informal diagnostics. Patient experience is considered the key measure of the hospices' outcome of improving quality of life, typically measured by patient surveys and evaluations. However, hospices also use spontaneous patient, family and carer letters as a method of demonstrating their success. *"For me the real acid test is... the spontaneous comments and stories that come in without being prompted"* (Care, Barton) *"I think just the letters that we receive ... even for somebody who has very recently lost a loved one, it speaks volumes"* (Finance, Cavell). The hospices are aware of the subjectivity of such evidence, especially as patients and their families are *"a captive audience"* (Care, Cavell), at such an emotional time. *"Most likely they are going to give positive feedback, particularly when they are feeling extremely vulnerable"* (Trustee, Barton). Ultimately, they are not paying for the services provided. *"There is a danger of course that families will always say good things because they're getting all this for nothing"* (CEO, Guinness). However, it is these stories that are used extensively in external documents to illustrate their achievements. *"There is a lot of evaluation work and from a funding perspective, it's very, very helpful when we are looking*

*for evidence of outcomes to support making applications” (Business, Barton). Patient stories are also used in Quality Accounts to the commissioners. The trustee at Barton concludes: “You absolutely must take notice of that but it absolutely must not be your only measure because it is not going to be sufficient” (Trustee, Barton).*

There are other examples of how interviewees describe informal ways to assess performance. Trustees are appointed for their skills and experience to spot when performance might not be good as expected. Their visits to the hospice are a means of informally assessing performance or alerting them to problems.

*Informally my knowledge that I bring to the organisation is about what I would expect to see in a finance department...when I bring my expertise, yeah, and then little bells start ringing and I think who I need to ask about this, that and the other. So that’s when the informal stuff comes in (Trustee, Nightingale).*

The CEO and directors speak of using intuition to pick up problems. It can be “*hearsay in the corridor*” (Business, Barton), “*a general feeling*” (Business, Nightingale) or sensing the atmosphere in a meeting. The CEO at Cavell comments that “*from people whispering in your ear to the general jungle drums, you pretty soon know when things aren’t going so well and there are issues.*” While all hospices carry out staff surveys, one CEO, in answer to the question how do you know you are doing well, replied that he walks around the hospice every day. Senior staff rely on informal communications as an early warning system as informal diagnostic tools. “*I can know what the numbers tell me. But they very rarely tell me enough. I need to spend less than an hour anywhere in this organisation to know whether I feel things are going OK or not. And boy, do I know it immediately*” (CEO, Guinness). The small size of these hospices allows informal diagnostic control to operate effectively.

Success is also considered to be how they are perceived within the wider community. Informal feedback from the community also gives reassurance of performance. At Nightingale, the CEO considers an increase in social media posting such as Twitter and Facebook followings as an indicator of good performance. The CEO at Barton speaks of the esteem in which the chair of the governors is held locally. The CEO at Nightingale interprets the invitation to herself and her colleague to lead a project as evidence of the hospice's good local reputation. Diagnostic control is therefore not merely about formal performance measurement but informal assessments of performance through a variety of sources of information. As small organisations, hospices can glean performance data through spontaneous family letters, social media, CEO intuition, community feedback and listening to the staff grapevine.

#### ***4.4 Interactive***

The essence of Simons' interactive lever of control is the communication between senior managers and their teams. In a corporate context, it concerns managers not just using diagnostic measures to identify the strategic uncertainties but actively looking beyond measures to all kinds of information that might trigger concern for the success of the organisation in its competitive setting. Such information is reported back to senior managers via face-to-face meetings, possible in a small organisation. While diagnostic systems constrain innovation, Simons argues that interactive systems are catalysts for change, through which strategies can emerge bottom up. Fundamentally, at the heart of a hospice's operation is communication. *"In simplistic terms, we are a business involved with people"* (Care, Barton). This includes, but is not limited to, Simons' formal interactive meetings between senior managers and their teams. It is far more wide-ranging than merely addressing strategic uncertainties. To achieve its outcomes, a hospice is heavily dependent on staff interaction through understanding a patient's needs. At one hospice clinical staff have training in

advanced communication skills as “*communication is so essential in terms of patients and carers*” (Care, Barton). In another, communication is an explicit part of their strategy.” A third is promoting a “coaching conversation” which “*allows people at a lower level to have chats with one another about things that are mutually beneficial*” (CEO, Guinness).

Simons (1995) in his appendix draws the distinction between “design attributes” or types of control, such as boundary and belief levers, and “attention patterns” or uses of control such as diagnostic and interactive methods (Simons, 1995, p. 180). Indeed, Simons envisages his interactive lever of control as the process whereby senior managers inform themselves of their teams’ decisions through meetings. Managers *use* other information systems *interactively* to identify key data to provoke discussion, through which a bottom-up strategy emerges with revised forecasts and actions to manage strategic uncertainties. This suggests that interactivity is about *how* staff communicate key information with their senior managers.

In all the case hospices, there is ample evidence of both formal and informal interactivity, or how trustees, managers and staff communicate. Regular formal meetings are held internally between the board of trustees, senior management teams, and at all operational levels. There are formal external communications with stakeholders such as commissioners and the wider community. There is also extensive informal interactivity with the mix of formality and informality differing in each organisation. This is particularly evident in the relationships between the board and senior management teams, striking a different balance in the formality of interactivity across the case hospices. At one, the relationship is predominantly formal and remote; two other hospices describe their fruitful relationships as a partnership and another the level of involvement of Trustees in determining strategy by the board was beginning to cause tensions. Similarly amongst the staff at all levels informal and formal interactivity is intertwined. “*There is a formal process but without a doubt there isn’t someone they can’t turn to and they think they would be listened to*” (Business, Barton). This

research suggests that, particularly in the case of hospices, interactivity is extensive but to limit it to the formal meetings of senior management underestimates its role in the management control of an organisation. The informal and formal interactions between trustees, managers, staff, and patients are inextricably intertwined, enabled by being a small organisation.

## **5. Discussion and Conclusions**

While informal control is now an established concept within academic debates about performance management, its role within different management control systems and packages remains unclear. Prior research calls for the examination of informal controls operating within Simons' LOC (Mundy, 2010; Martyn *et al.*, 2016). There has been some empirical evidence of how this operates in practice, such as Arjaliès and Mundy (2013), Bruining *et al.* (2004), Collier (2005) and Marginson (2002). This research therefore undertakes to understand further the relationships between informal and formal controls and its implications for SLOC by using the independent UK hospices as a fruitful context to understand its complexity. These are mainly small organisations, with all five case studies of UK hospices having an income of under £15m. Qualitative research, including the twenty-five semi-structured interviews undertaken with senior managers and trustees, was undertaken. Simons' first lever, belief, is a powerful part of the management control system operating within the case hospices. In his SLOC, Simons' (1995) describes how formal information systems exercise control in his belief lever. He identifies mission statements as the primary means to motivate and inspire employees. Indeed, the case hospices are using mission and vision statements in the way in which he envisages, being formally composed, communicated throughout the organisation and are used to motivate staff. Hospices adopt



methods of communication, observed in other studies using Simons' belief lever of control, such as soapbox meetings and business magazines (Bruining *et al.*, 2004); and values charts and internal conferences (Arjaliès and Mundy, 2013). However, the impact of belief within an organisation should not be limited to these formal controls but include "clan" control (Ouchi, 1979; Merchant and Van der Stede, 2012) or the traditions, beliefs, shared values which characterize a particular organisation (Tucker, 2019). There is a strong and distinct hospice ethos, with a philosophy committed to the holistic care of the terminally ill. It is more than the provision of buildings, beds and physical care. Hospices fiercely protect their independence as charities to provide social and psychological care. Moreover, the mission statement is not the source of inspiration and motivation, as argued by Simons, but the result of the strong sense of purpose of individuals within the hospices. This is an example of "social" control, defined by Tucker (2019) as the prevailing social perspective of individuals, based on their interactions within an organisation. Individual managers stress the difference in how they approach the care of the terminally ill to that provided by the more formally controlled NHS. The hospices could not operate without the time being given by volunteers, evidence of individuals responding to an organisation's purpose. Leadership is provided by the board and CEO, listening to the views of all stakeholders, to articulate the hospices' vision and values. Similar patterns of how informal social controls interact with formal controls systems are described by Chenhall *et al.* (2017), where performance measurement systems play an active role of in helping employees express their values; and by Kraus *et al.* (2017) who showing how the "ideological talk" of managers, recognising the values of their employees, can facilitate the use of formal MCS. This research therefore suggests that "ethos" is a more appropriate description of the belief lever of control within the hospices. The informal sense of mission is more profound than any formal document laying out

organisational purpose. Moreover, this is not perceived as a mechanical “lever” but a more fluid “control pattern”.

Boundaries, Simons’ second lever, are set by the hospices and their management team through formal governance processes, identified as administrative controls by Malmi and Brown (2008). In many ways these are akin to the boundary systems, described by Simons (1995). Hospices are subject to regulation, organisational belief systems and professional codes of conduct and they choose to extend these through policies and procedures across all aspects of their operations. Simons (1995) also emphasises the need for strategic boundaries to be set through the planning processes described as a cybernetic systems in Malmi and Brown’s (2008) package of controls. These are clearly evident in all case hospices with strategies being formulated, and operating plans, annual budgets and appraisals setting out expectations for the hospices and their staff.

The findings of this research, however, show how informal as well as formal boundary controls impose limits on the case hospices. Bruining et al. (2004) argue that the internal organisational philosophy imposes boundaries on staff in their study of management buy outs. However, this is not limited within the hospices to the internal organisational or clan control but includes external professional controls (Tucker, 2019), with the majority of hospice staff being qualified or trained within the caring professions. Other external boundaries are set through the external influence of stakeholders. Funders exert pressure through the dependence of the hospices on their donations. There are also self-imposed boundaries, or a “felt-responsibility” (Ebrahim, 2003; O’Leary, 2017) or self-control (Tucker, 2019). Senior managers set limits on themselves through a sense of self-restraint, derived from their intrinsic motivation and develop a sense of responsibility from the informal commitment to mission. In a similar way, there is a sense of responsibility to provide value for money. Staff are cost conscious, not necessarily due to the imposed

financial controls but as a result of a commitment to manage their operations responsibly. Trustees, CEOs and senior managers are given responsibility through formal management control systems such as organisation structures and governance procedures but they also take responsibility for themselves as a result of their commitment to mission and purpose. This implies that a broader notion of “responsibility” should be used to describe the complex mix of formal and informal control patterns which can also set boundaries in small organisations.

There are several aspects of hospice performance that are not captured by the formal diagnostic performance measurement systems set out in Simons’ third lever. Volunteer time and donated goods are not measured as part of the inputs. Goodwill and compassion are not measured as part of the outputs. Anecdotal evidence, such as patient stories, is not part of the measurable outcomes; an example of vernacular accounting information (Kilfoyle *et al.*, 2013). Informal diagnostics are used to complement the formal measures, such as a CEO’s sixth sense of how the hospice is performing internally and its external reputation in the community. This research suggests that judgement is a third control pattern used by trustees, CEOs and senior management in evaluating the performance of the hospices. Simons (1995) envisages his interactive lever as the formal information-based systems where senior managers interact to manage strategic uncertainty. However, there is as much evidence of informal communications being an important part of hospice performance management as the formal information systems. The case hospices provide abundant evidence of informal communication playing a fundamental role in the management of the hospices, alongside formal meetings between the board, and senior managers. This is not surprising and prior research has provided evidence of this in all sectors. Collier (2005) argues that control is exercised in a small entrepreneurial company through the informal meetings with staff in pubs while travelling. Bruining *et al.* (2004) see the venture capitalist, owner/manager relationship as key after a management buy-out. Kominis and Dudau (2012) find an evolution

from diagnostic to interactive management control in the public sector. Chenhall et al.(2010) find evidence of informal organic controls operating as case workers have informal meetings with co-ordinators. Kraus et al. (2017) consider the importance of “ideological talk”; face to face meetings of leaders and their staff.

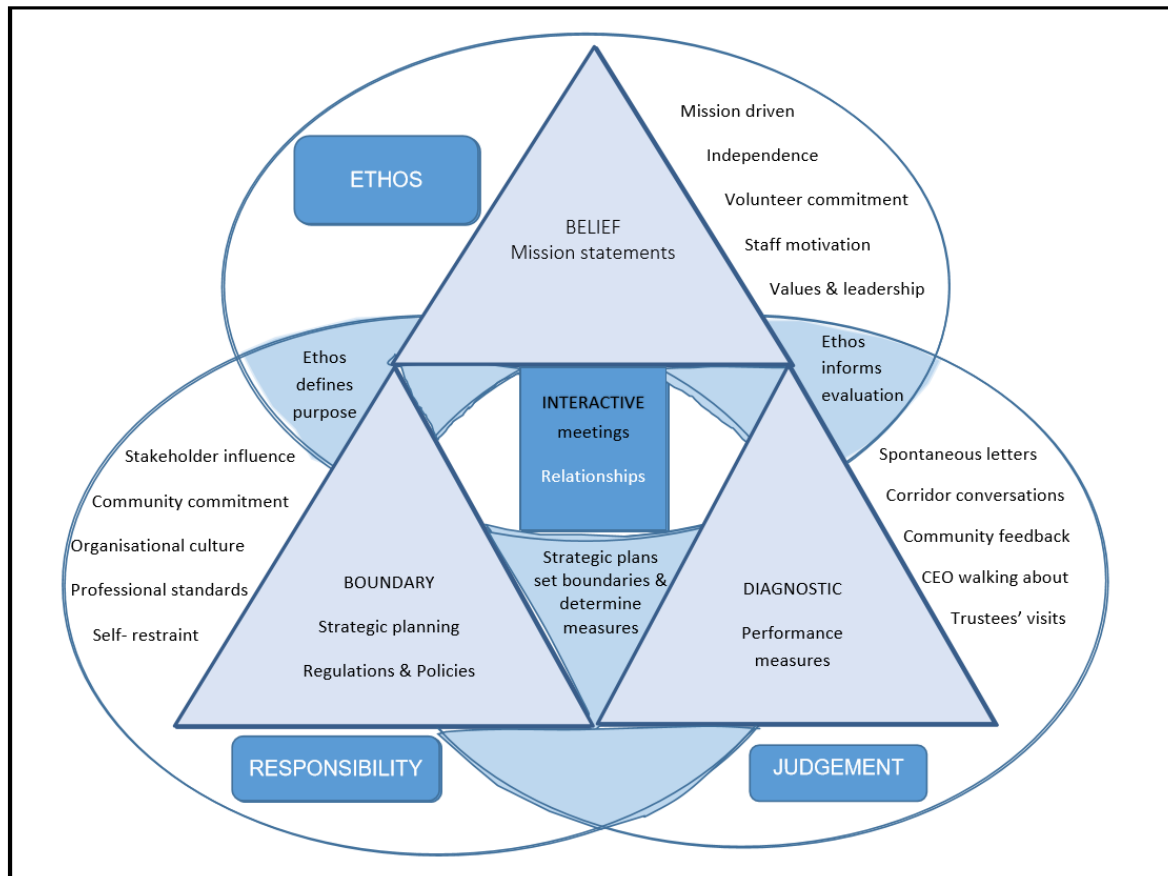
This research also illustrates the complexity of interactions between Simon’s different levers. They are not simply four levers balancing dynamic tensions between controls systems, as portrayed in his diagram (see figure 1.) This research show how interplay between formal and informal controls is more fluid and messy. Recent conceptual models have included informal controls but limited their definition. Laguir et al., (2019) add informal control to the SLOC as a fifth control; Kilfoyle et al. (2013) envisage it as one quadrant, defined as soft and local control; Tucker (2019) suggests it as one aspect of a 2x2 matrix, high on social interaction and low on deliberate design. Moreover, it is too simplistic to conclude that belief and interactive systems are enabling while boundary and diagnostic systems act as constraints. The hospice ethos is not only enabling but is also constraining as it limits the organisation by using its mission to define its fundamental purpose. External stakeholders need to have confidence that their funding will be used for the purposes stated. Mission statements help to resolve internal conflicts over priorities, particularly as they become more dependent on commercial income, to prevent mission-drift. On the other hand, rather than boundaries being imposed, as the “yin”, there is a positive sense of moral responsibility to beneficiaries and the community. The hospices, with a tradition of independence, demonstrate this paradox very clearly: a sense of freedom within certain boundaries. While their strategic plans set limits, it also empowers senior managers giving them authority and autonomy. It can also be argued that Simons’ interactive control is in reality a “use” of control rather than a “type” of control. It fundamentally underpins how each of the control operates in practice, both formally through meetings and informally through relationships.

Simons himself describes interactive control as an “attention-pattern” or a use of controls, rather than being a “design-attribute”, or lever in the appendix of his book (Simons, 1995, p. 180).

A new framework, incorporating both informal and formal controls, can therefore be derived using the findings of this research. It concludes that informal control is much more pervasive, fluid and not limited to a discrete part of a conceptual model. It should not be hierarchical; instead, there are complicated networks of relationships between internal and external stakeholders. As linear, mechanistic causality is not easy to determine with so many intangibles, the framework is presented as a series of overlapping circles. Three of the four levers of Simons’ framework (belief, boundary and diagnostic) are represented by triangles. However, this research concludes that his fourth interactive control underpins these three levers and is not a separate lever in itself. These triangles represent the formal information systems identified by Simons. However, this performance management framework also includes the broader informal control patterns of ethos, responsibility and judgement to complement the formal belief, boundary and diagnostic levers respectively. Informal controls identified in the case hospices include values, intrinsic motivation and volunteering spirit within the ethos lever. The commitment to the community, stakeholder influence, organisational culture and professional standards are informal controls operating within the responsibility control pattern. Judgement is exercised when evaluating the performance of hospices, informed by the anecdotal evidence of patient letters, community feedback, corridor conversations and trustees visits. Figure 2 illustrates how the control patterns overlap each other. Ethos set limits through defining the hospices’ purpose and influences how performance is evaluated. Strategic plans set boundaries and determine what performance measures are used.

Simons' (1995) developed his Levers of Control for senior managers in large corporations to ensure the effective implementation of strategy. He describes his four levers (belief, boundary, diagnostic and interactive) as formal routines and procedures. This paper argues that this can be adapted to include informal patterns of control, suitable for understanding management control within in small organisations. The cases studied here are UK independent hospices and are small organisations with an income of under £15m. While this new framework has been derived from the qualitative research of hospices within the voluntary sector, it has applicability across all sectors. They offer a rich context in which to study how informal controls operate, particularly due to their intangible mission and their lack of a measurable ultimate outcome of a "good death". As small organisations, senior management teams can promote the purpose and values within the organisation as role models. The self-restraint of CEOs is as an effective control as written procedures. Observation and conversations provide diagnostic information alongside formal reporting. Thus, the research demonstrates how informal and formal controls can complement each other within small organisations.

**Figure 2: Performance Management Framework, with formal and informal controls**



Source: Author's own

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