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Delegation, accountability and organizational reliability.
Coordination mechanisms and training models for contingency management.

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Abstract

In the International Strategic Management (ISM) field of research, a frequently studied problem is the impact of distance (both geographical and cultural) on organizational effectiveness and reliability. In high reliability organizations (HROs), the operator is one who addresses operational issues, often acting far (hierarchically and physically) from the managerial level, alone or as part of a team. This article discusses issues related to 1) the coordination mechanisms used by a multinational organization to ensure reliability; 2) the characteristics possessed by the operator and 3) the training strategies that should be used to develop their skills; lastly 4) a discussion of the relationship between the group agent (team) and organizational reliability.

Keywords: Firm performance, High reliability organizations, Organizational effectiveness, Coordination mechanisms

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1. Introduction

International strategic management\(^1\) (ISM) research saw rapid growth through the 1980s (Ricks et al., 1990) and the 1990s (Werner, 2002; for a review, Lu, 2003). In her review, Lu (2003) highlights that an important category of research in this field of study is leadership and organization, in particular internal coordination and decision-making. Studies in this group tend to look at challenges involved in managing foreign subsidiaries. Such challenges include issues of the control (Nobel and Birkinshaw, 1998) and coordination (e.g., Martinez and Jarillo, 1991) of international subsidiaries. Research has also examined knowledge flows in the organization (e.g., Ghoshal et al., 1994; Gupta and Govindarajan, 1991) and a firm’s need for internal coordination (Roth, 1995). Research on decision-making has focused on the effectiveness of planning (Jones et al., 1992), sometimes as contingent on the profiles and effectiveness of boards of directors (Kriger, 1991). The first aim of this article is to discuss issues related to the coordination mechanisms used by a multinational organization to ensure effectiveness.

From the theoretical perspective (Lu, 2003), the transaction cost theory and the internalization theory have been the mainstream theoretical perspectives employed in ISM studies. Three other theoretical perspectives emerged in the 1990s: institutional theory, organizational learning/knowledge management (OL/KM) theory, and the resource-based view of the firm (RBV). The theoretical perspective adopted in the field of ISM has been shifting from economic theories to multidisciplinary approaches: the second purpose of this paper is to give a contribution to theoretical perspective by starting from the point of view of Agency Theory and Organizational Behaviour.

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\(^1\) Ricks (1991), Lohrke and Bruton (1997) and Lu (2003) used the following definition of international strategic management: “The core of international business research deals with the multinational enterprise (MNE), the exporting or importing firm, and the problems encountered by these firm. Topics of importance include: the theory of the MNE; the role of the MNE; MNE versus domestic corporation issues; government–MNE issues; the problems of managing international trade, and also functionally oriented topics such as international financial management, international marketing management, international accounting management, international strategy, international management, etc…. Studies which describe how business is done in one country are not considered international business research, but comparative studies are” (Lu, 2003, 195) *italic is mine.*
Organizations, and in particular subsidiaries of a multinational company, frequently perform in a situation characterized by bounded rationality (Simon, 1957), uncertainty (outputs/outcomes depending not only on the actions of operators: Jensen Meckling, 1976), and distribution of information with information asymmetry in favor of the operators, since they are often closer to the “front line” of operations, and far from their headquarters. That characteristics are typical of an Agency Relationship or Theory (AT), largely studied in literature (for a review, Eisenhardt, 1989). The AT describes the exchange relationship between an actor (the Principal, in this case the headquarters) who delegates to another actor (the Agent, in this case the subsidiary) the discretionary power (i.e., decision-making responsibilities) to act on behalf of the Principal for a reward (Jensen, Meckling, 1976; Ross, 1973). This exchange relationship makes it possible to align the Agent’s goals with the Principal’s for the sake of achieving desired efficacy. AT is concerned with resolving a problem that can occur in the agency relationship: the goals of the principal and of the agent may come into conflict, and it is difficult for the principal to control what the agent is actually doing. Asymmetrical sharing of information, in fact, can lead to opportunistic behaviour on the part of the agent, and this in turn can lead to unfavorable behaviour for the organization in terms of reliability. In line with an increasing body of literature, we conceptualize the MNC as consisting of semi-autonomous entities (Bartlett and Ghoshal, 1989; Gupta and Govindarajan, 1991; Ambos, Ambos, 2009), in which units in dispersed locations take on various missions and control heterogeneous stocks of knowledge (Foss and Pedersen, 2002). In accord with Ambos and Ambos (2009), we define knowledge as “accumulated practical skill or expertise that allows one to do something smoothly and efficiently” (Kogut and Zander, 1992, p. 386), and the distribution of information and knowledge is in favor of each company unit (the Agent in the agency relationship). AT allows more effective identification of coordination and control mechanisms, with the aim of reducing the agent’s opportunistic behaviour. In particular, Jensen e Meckling (1976) started from the hypothesis that when the principal-agent relationship is output-based, the agent behaves more frequently in line with the principal’s goals.

From a strategic point of view, in a multinational company it is necessary to translate the subsidiary’s mission into individual objectives at the operator’s level, in accord with a bottom-down process. The whole effectiveness of a multinational organization depends also on the reliability of each subsidiary. Under what conditions can subsidiaries (and their operators) successfully cope with unexpected events? Lastly, this article focuses on optimal coordination mechanisms to ensure reliability, and the third contribution of this paper highlights the skills that an operator must have in order to function successfully, and suggests appropriate actions for achieving these skills. In this sense, we have followed important suggestions from studies on High Reliability Organizations (HROs; Weick, Sutcliffe, 2007) and sensemaking capabilities (Weick, 1993; Lanzara, 1993), here supplemented by indications from the organizational theory of coordination and control (March, 1993; Olson et al., 2005).

2. Coordination and control mechanisms for ensuring effectiveness and reliability
As noted by Ambos and Ambos (2009, 1), knowledge flows across dispersed organizational units are vital for a company’s success (Bartlett and Ghoshal, 1989; Hedlund, 1994; Kogut and Zander, 1992). In the literature progress has been made with respect to the organizational mechanisms or capabilities used by multinational companies to transfer knowledge (Foss and Pedersen, 2002; Martin and Salomon, 2003a; Hansen and Lovas, 2004; Almeida et al., 2002). In an attempt to answer the question how different knowledge transfer mechanisms enhance the effectiveness of knowledge transfer, Ambos and Ambos (2009) take a closer look at two distinct mechanisms: personal coordination mechanisms (PCM) and technology-based coordination mechanisms (TCM). This paper is focused on the first ones, exploiting the contribution of organizational literature; mechanisms of coordination and control that rely on personal interactions between individuals are likely to be harmed by distance (Ambos, Ambos, 2009, 4). Despite this evidence, how can coordination mechanisms ensure effectiveness? Often, subsidiaries are far from headquarters and autonomous: when an unexpected event occurs, how can coordination mechanisms ensure reliability? Organizational literature describes a number of coordination mechanisms, all aimed at ensuring that in an organization the right actions are carried out at the right time and place and by the right people (Roberts, 2004). This issue is so relevant that, for some authors, coordination is synonymous with organization (Hatchuel, 2002). The coordination mechanisms most studied are direct supervision, standardization by procedures, skills, outputs, and culture. Direct supervision will not be discussed here because, by choice, this article focuses on a situation in which the operator is far (hierarchically but above all physically) from his superior. Likewise, there will be no discussion of standardization by culture, as the required realization time is often too long for an organization. This article will therefore focus on standardization by skills, procedures (routine) and results (output), discussing them in the context of organizational reliability, namely contingency prevention and management.

Standardization by skills seeks to provide an a priori definition of the range of skills that must be possessed by persons fulfilling given roles. This is a coordination mode typical of organizations possessing explicit, codified skills sets which are easily replicable and transferable (Grandori, 1992). This mechanism, while making it possible to deal with situations marked by complexity and high-level professionalism, is a preventive control mode whose practical effectiveness is limited in eccentric and unexpected situations.

Procedural standardization implies an a priori definition of performance (March, 1993) or routine programs the operator must adhere to. Performance programs function well when the environment is stable and predictable, and they represent an “organizational memory” (Olson et al., 2005), yet they reveal insurmountable limits in conditions of uncertainty or in the presence of bounded rationality, since they do not provide the operator with a strategy for dealing with unexpected situations. Also, routines generate expectations about the environment which in turn cause a selective perception of information, thus limiting the knowledge of that environment (Weick, Sutcliffe, 2007).

Standardization by output implies an a priori definition of the results to be achieved. It is a control mechanism based on greater autonomy of the operator, who is permitted margins of discretion even within the constraints that characterize the primary work system. In general, this mechanism proves effective (Merchant, Riccaboni, 2001) when the results to be achieved are known and accurately definable in advance, in a positive sense, or, as in the case of reliable organizations, in a negative sense (what it is desired to avoid at all costs).
If standardization by output seems to be the most effective coordination mechanism in terms of preventive reliability, the characteristics of the operator must also be taken into account. In this sense, standardization by output does not deny expertise value; on the contrary, the mechanism of delegation and accountability by results is an antecedent of the Fifth HRO Principle: respect for expertise (Weick, Sutcliffe, 2007). In the context of process, responsibility for the result is assigned to those who are most skilled, regardless of rank, and where the skill in question is linked strictly to the expected result.

In addition, the coordination mechanism by result is an antecedent of the Third HRO Principle: sensitivity to ongoing activities (Weick, Sutcliffe, 2007), since it transfers responsibility onto the agent acting in the real situation, in a context of subsidiarity (the problem, wherever it crops up, is dealt with in autonomy).

Finally, standardization by output generates a high level of responsibility in an operator who is called on to act in a situation of uncertainty whose outcome does not depend solely on his actions. To prevent this uncertainty from being demotivating, the operator must possess or acquire certain characteristics.

2.1. Operator characteristics for contingency management

Standardization by output is considered a powerful means for aligning the operator’s objectives with the organization’s, but organizations must consider the operator’s characteristics in order not to delegate a task to the wrong person, thus endangering the survival of the person himself or even the entire organization. The psychological literature describes at least four operator characteristics associated with the management of high-uncertainty situations: the level of self-efficacy (Bandura, Wood, 1989); the internal locus of control (Rotter, 1966); bricolage skill and the attitude of wisdom (Weick, 1993).

Self-efficacy indicates the extent to which a person feels capable of achieving a desired result. Bandura (1969a, 1969b, 1971) emphasizes and describes the influence on behavior of one’s own expectations and those of others, expectations that influence outcomes which in turn, circularly, influence subsequent expectations and outcomes. In other words, the attainment of an outcome influences the perception of one’s own abilities, as well as the expectations regarding the solution of similar problems in the future, and therefore the Agent’s behavior. Those with high levels of self-efficacy persevere in their goal-achieving attempts, attribute failure to lack of commitment and not to adverse situations, are able to cope with environmental stress, have ambitious career objectives, and attain personal success easily. In practical terms, the expectation of self-efficacy seems to be the best predictor of performance (Cooper, Robinson, 1991; Fuad, 1994). For the purposes of organizational reliability, it is important that self-efficacy not turn into overconfidence.

The concept of locus of control “expresses the way in which events that occur in accordance with an internal/external polarity are interpreted. It also implies the subject’s perception of the possibility of controlling events.” (Di Fabio, 2003, 202). This perception is also referable differentially to positive and negative events. The locus of control is located along a continuum between two polarities, an internal one and an external one. The internal locus is typical of individuals who believe in their own ability to control events. They attribute their successes or failures to factors directly related to the exercise of their skills, determination and aptitudes. In contrast, the external locus characterizes those who consider life events, such as rewards or punishments, to be, not the result of the direct exercise of personal skills, but rather the result of unforeseeable external factors such as chance, luck or destiny. In the context of reliability, we can infer that the internal locus of control is correlated to greater proactivity on the part of the subject.
Bricolage skill (Weick, 1993) is what enables an individual to find solutions by using the elements at hand, namely the ability to see a solution which others fail to see. It is not an innate skill, but one based largely on the operator’s experience. If the operator has acquired a working knowledge of hundreds and hundreds of solutions, based on answers to as many different situations, his bricolage skill will consist of recalling the solution best suited to the problem he faces. ‘Bricoleurs remain creative under pressure, precisely because they routinely act in chaotic conditions and pull order out of them. Thus, when situations unravel, this is simply normal natural trouble for bricoleurs, and they proceed with whatever materials are at hand’ (Weick, 1993, 639). Knowing these materials intimately, they then are able, usually in the company of other similarly skilled people, to form the materials or insights into novel combinations. Likewise, Lanzara (1993) called negative capability the ability of an operator to generate alternative frames for cognition in a specific situation. An organizational situation ‘produces the agent’s behaviour which, in turn, produces the organizational situation’ (Lanzara, 1993, 11). Negative capability is not oriented to apply to well-known routines, but to dispute the mechanisms that underlie a routine, and to assess the efficiency and effectiveness of the routine itself.

The attitude of wisdom (Weick, 1993) should not be confused with wisdom itself (which is a knowledge derived from study): wisdom is knowing without excessive certainty and without excessive caution. Understanding the role of wisdom (Bigelow, 1992) as a source of resilience is a Socratic kind of knowledge (the operator knows he doesn’t know), a kind of knowledge which is free of presumption on the one hand and of excessive caution on the other. The cocksure type is short on curiosity, while the milkoskop type is paralysed; in either case, an imbalanced attitude towards the situation is to be expected. Psychologists have attempted to define wisdom variously as a composite of personal qualities or abilities (Ardelt, 2005), as the final state of psychosocial development (Herickson, 1982), as a high level of cognitive reasoning (Kramer, 2000), or even as a way to live ‘a good life’ (Yang, 2013). As an attitude, wisdom resides in individuals, and it has been conceptualized in at least two distinct (but not mutually exclusive) domains: a cognitive domain and a constellation of personal attributes. The Max-Planck model (Baltes, Smith, 1990; Dittmann-Kohli, Baltes, 1990; for a review, Kramer, 2000) posits five specific criteria of wisdom: 1) rich factual knowledge about the matters of life; 2) procedural knowledge about ways of dealing with life problems; 3) life-span contextualism and, more relevant to the aims of this paper 4) uncertainty in problem definition and finally 5) relativism regarding problem solution.

It is important to note that this last element, wisdom, serves as a moderator of both self-efficacy and the internal locus of control, by preventing them from turning into overconfidence, which would lead to an underestimation of the situation’s danger.

2.2. Training models which form the basis of reliability

As described in the literature (Betz, 1992), an adequate level of self-efficacy and internal locus of control can be developed through training carried out in various ways. One of these is gaining a mastery of experience, by which goal achievement creates in the worker a sense of potentiality and therefore of effectiveness. Vicarious experiences are also important: watching others like oneself achieve a goal bolsters belief in one’s own capacities. Another factor that bolsters a sense of self-efficacy is social persuasion: if third parties convince the worker of his abilities he will probably be encouraged to try harder to achieve his goal. This approach is consistent with the goal setting theory (Locke, Latham, 1990).
Among the moderators of the relationship between standardization by output and performance, the literature points to feedback (FB). Providing regular feedback on the agent’s progress in a given activity is a key success factor of his performance. Also, FB is the basis for any chance of seeing one’s value recognized, and thereby of increasing one’s self-esteem, sense of self-efficacy, and internal locus of control. FB is itself essentially a learning process which can be considered “information about our progress towards goals we want to achieve” (Schein, 2001, 141).

The culture of error is a sine qua non for developing an attitude of wisdom. It has by now been proven (Weick, Sutcliffe, 2007) that organizational, managerial and training models that exploit rather than penalize error and failure incidents are correlations of reliability, and in particular of the First HRO Principle: concern about critical events. Wisdom is built by making mistakes and allowing mistakes to happen, as long as the situation does not affect the survival of the system: it must, of course, occur in a protected environment. The curve of the function that binds experience and wisdom has the form of an inverted “U”: at first it increases with experience, to the point where wisdom begins to diminish from overconfidence. Meacham (1983) argued that wisdom is an attitude rather than a skill or a body of information, and therefore it develops through a process of trial and error. Errors lead people to an enhanced awareness of the uncertainty of problem definition that reflects the ambiguity and multiple interpretations of organizational problems; finally, the attitude of wisdom is improved by exploitation of multiple solutions, even in opposition to each other: relativism in problem solving involves the recognition of the inherent unpredictability of outcomes (Baltes, Smith, 1990; Dittmann-Kohli, Baltes, 1990). Findings in literature (Lyster, 1996) suggest that sages underestimate their wisdom, and this is the ‘Socratic core-competence’ that makes possible attitudes of wisdom; Lyster also found older people to be among the top scorers on wisdom criteria, leading her to assert that wisdom shows a different life-span evolution than other cognitive processes.

Bricolage skill develops by imposing on others or oneself the solution to a problem with what one has at hand, without resorting to pre-defined solutions or appealing to more experienced persons. This is not a generative action, because nothing is created from nothing: to solve a problem, the ‘bricoleur’ exploits resources already available in the situation (information, tools, materials).

Improvement of bricolage skills demands full delegation to the operator, who is responsible for output, in accordance with the statements of an output-based agency relationship. Furthermore, the operator is often acting far (hierarchically and physically) from the managerial level, alone or as part of a team, and so has ample autonomy in decision-making. Accordingly with the goal setting theory, standardization by output as a coordination mechanism has more efficacy if the desired goal is challenging and, conversely, a challenging goal is a powerful mechanism to elicit motivation and to force the operator to enhance bricolage skills.

Finally, Lanzara (1993) suggests that only a breakdown event shows the origin and the limits of organizational routine; also, an unexpected event often shows the unconscious routines which underlie organizational behaviour. So, as a training method, the creation of problematic and unexpected situations is the best way to improve bricolage skill.

2.3. Multiple agents and organizational reliability: further research perspectives
The literature on HRO emphasizes the role of relational networks and mutual support for the sake of resilience (Weick, 1993, Weick, Sutcliffe. 2007). Unlike the vertical control system represented by the principal-agent dyad, mutual monitoring concerns the reciprocal assessment of performance among individuals working on common tasks, whose contributions are evaluated and rewarded by a firm on the basis of a collective outcome. Mutual monitoring, which de-emphasizes dependence on superiors and instead places control in the hands of peers, is buttressed by the common bond of agents whose interests are intertwined (Welbourne, Balkin, Gomez-Mejia, 1995).

On the other hand, Jensen and Meckling noted that "[the firm] serves as a focus for a complex process in which the conflicting objectives of individuals are harnessed into common goals. . . . Agency costs arise in any situation involving cooperative effort by two or more people even though there is no clear-cut principal-agent relationship" (1976, 307).

The psychosocial literature indicates critical points on these issues, critical points that under certain conditions lead to weaknesses in (multi-agent) teamwork. First of all, a situation characterized by ambiguity may increase the chances that the phenomenon of pluralistic ignorance (Latane, Darley, 1970) and social proof (Cialdini, 1984) may occur, to produce paralysis of action.

Moreover, in a situation that is unequivocal but characterized by joint and several liability, there may be an increased occurrence of diffusion of responsibility (Wallach et al, 1964), which also paralyzes action and in addition can generate opportunistic behavior in one or more team members.

3. Conclusion

Distance is potentially damaging to effectiveness and reliability, as “the decay and loss of distance is precisely the decay and loss of knowledge, relationships, and trust, which in turn undermines the ability to act at and over distance” (Goodall and Roberts, 2003, p. 1155). Following this argument, mechanisms of coordination and control that rely on personal interactions between individuals are likely to be harmed by distance (Ambos, Ambos, 2009, 4). Accordingly, the empirical evidence in organizational literature (in particular, Agency Theory) would suggest recourse to output-based coordination mechanisms. On the other hand, the empirical evidence in psychological literature would suggest, wherever possible, recourse to a system of individual responsibilities clearly defined in terms of the expected result (Welbourne, Balkin, Gomez-Mejia, 1995). Future research on the subject of HRO will need to clarify the criteria of choice between individual and collective responsibility in emergency management.

Finally, the review of the existing literature (Lu, 2003, 207) has also noted a shift from the dominance of economic theories (transaction cost theory, I/O theory, etc.) to multidisciplinary approaches. Therefore, opportunities exist to study ISM topics through different theoretical approaches, such as psychological and organizational ones.

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