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OWNERS VS. EXECUTIVES, DECISIONS VS. CONTROL AND THE STAGIRITE

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Abstract:

Several scholars have claimed that CEOs make decisions while the boards of directors control these decisions. These claims are scrutinized on legal grounds as well as on scholarships on organization, corporate governance, and management and strategy. It is concluded that the relationship between the owners (the boards of directors) and the top managers is hierarchical. Boards of directors hire and may fire top managers. Owners or the boards of directors make decisions on main goals and strategic goals either directly or indirectly by using their power to reject or overrule decisions on goals by managers. It is argued that decisions cannot be controlled because decision and choice making are individual mental processes. Only actions like implementation of plans can be controlled. Owners decide goals and strategies while managers are concerned with planning and implementation. Owners are primarily concerned with the degree of attainment of their goals.

Keywords: owners, board of directors, goal, strategy, planning, decisions, decision control

INTRODUCTION

The claims which initiated this article concern the relationship between owners and managers and the relationship between the concepts of decision and control. The statements on these relationships presented by Fama and Jensen (1983) and Finkelstein and Hambrick (1996) are scrutinized formally and legally as well as on organization theory, corporate governance scholarship, management, and strategy theory. Finkelstein and Hambrick (1996: 2) were 'centrally concerned with why executives make the strategic choices they do' and added, '…, strategy and other major organizational choices are made by humans, primarily top executives ...' (ibid.). Fama and Jensen (1983: 308) wrote: 'In the unusual cases where residual claims are not held by important decision managers but are nevertheless concentrated in one or a few residual claimants, control of decision makers can in principle be direct and simple, with the residual claimants ratifying and monitoring important decisions and setting rewards.' The content of their statements can be expressed as Ponomareva, (2016: 3) did:

The balance between control and delegation is defined through two central actors within a corporation - those who take decisions, namely professional managers, and those that control these decisions - the boards of directors (Finkelstein and Hambrick, 1996; Fama and Jensen, 1983).

This article addresses ownership and management as well as decision and control in organizations. Consequently, the question of how organizations should be studied emerges. As Scott (2003: 11) has written: 'Most analysts have conceived of organisations as social structures created by individuals to support the collaborative pursuit of specified goals. Common for rationalistic organisation theories is that organisations are oriented to the pursuit of relatively specific goals. Goals are specific to the extent that they are explicit, clearly defined, and provide unambiguous criteria for selecting between alternative activities. A common characteristic of open system theories is that they define organisations "as congeries

of interdependent flows and activities linking shifting coalitions of participants embedded in wider material-resource and institutional environments' (Scott 2003: 29). The issue of whether or not organisations can be studied with a focus on the goals for organized action constitutes the watershed between the rationalistic and system theories.

OWNERS VERSUS EXECUTIVES

Rationalistic organisation theory - owners and managers

Organisations are social phenomena. Rationalistic theory views the organisation as an instrument, that is, a rationally designed means for the realization of explicit goals set by a particular group of people (Scott, 2003). In management and business administration, organizations are regarded as contrived entities that are established as vehicles for the owners and their goal-attainment. Some organisations are established where the owners are the prime beneficiary, namely business enterprises (Blau and Scott, 1962). Goal-attainment is therefore the central issue and the basic definition of effectiveness in management theory.

The firm – as one type of organisation – is perceived clearly and undoubtedly as rationalistic in theories of business administration and management (Douma and Schreuder, 2002). The firm comprises one or more individuals who pursue the goal of generating dividends from the capital invested. This very goal motivates its establishment. Only owners, moreover, have the right to change the business's objectives (Sternberg, 1997). The major difference between private companies and public agencies is the motive behind the establishment of these organisations. A private organisation is in operation because some individuals (or other organisations) have decided to invest their funds into it. The enterprise is in operation as long as the owners wish it to continue and the market allows it. In contrast, a public organisation is in operation because a political decision has been made to establish it and the public agency remains in operation until a decision is made to cease its operations.

According to rationalistic theory, power and control rest with the owners. As Abrahamsson (1993: 205) has written, 'The law is clear on this point. Decision-making authority ultimately rests with the mandatory, even if there are other stakeholders in the picture. The Swedish Co-Determination Act, for example, gives employees the right to take part in decisions in companies and authorities. However, the scope of this legislation is limited by the Companies Act, which places final decision-making authority in the hands of the owner-mandator.' In short, the professionalization of management and control functions does not mean that the control is transferred from owner to administrator (ibid.). The controlling shareholders typically have power over their firms that significantly exceed their cash-flow rights (La Porta *et al.*, 1999).

Rationalistic organisation theory focuses on owners, executives, and organisational goals and highlights the relationship between the owners and managers. Shareholders need to delegate control to a few directors and managers who can run the company on their behalf (Letza *et al.,* 2004). The main goal of the organization is not an issue for the managers. For the manager the goal is imperative, an order. As Maghroori and Rolland (1997: 80) have written on managers: 'They do not exist for their own sake. They are to serve the organization's goal and mission and they remain at all times subservient to it.' Most literature on organisation theory is, however, based on open system theory, which marginalizes the importance of goals and owners.

Open system theory - owners and managers

Open system theory emerged as a reaction to and is an argument against rationalistic theory. This perspective is based on the seminal work of Katz and Kahn (1978). They rejected the idea of studying organisations on the basis of goals. It is imperative to note that Katz and Kahn (1978) did not address the issue of ownership. Organisations are dependent on other

organisations and groups in order to acquire input and to find outlets for their products and services. Katz and Kahn (1978) have named other organisations 'constituent groups' or 'constituencies'. However, the concept of constituency is not well defined. Theoretically, all constituent groups are equally important (Katz and Kahn, 1978; Pesueux and Damak-Ayadi, 2005).

System theory does not regard the organisation primarily as an instrument for the realization of the owners' goals. Rather, the organisation is perceived as a structure that responds to and adjusts itself to a multitude of demands from various stakeholders and tries to maintain balance by reconciling these demands. A goal is a description of a future, a desired state. The same applies to strategies. Katz and Kahn (1978) have, however, regarded organisational goals as abstractions or generalizations of future activities and behaviours in organisations on a general level. System theory uses the notion of constituents to explain how goals *emerge*. Goals are formulated through a complex process involving different and possibly competing expectations from the constituents.

One of the universal characteristics of organisations is the presence of a goal or purpose. Rationalistic organisation theory regards the goal as an independent variable and as the primary controlling factor in the organisation's activities. In contrast, open system theory does not see goals as controlling the organisation's activities. Goals are conceived as a dependent variable, a product of the activities that take place in the organisation. Or to put it differently, according to rationalistic theory, first comes the goal and then the organisation is established. In system theory it is the other way round. Since all organisations have goals this question arises: whose goals are they? Rationalistic organisation theory is crystal clear on this matter: the goals for the organisation are the owners'. According to system theory the answer is, however, less clear.

On organizational goals and goal-attainment

The phrase 'organizational goal' is a delusion. Organizations *as* organizations do not have goals. It is meaningless to address the concept of goal without simultaneously address the question of *who* has the goal. It is the owners (principals) of the organization who have goals for the firm they own. Official goals do not simply emerge. It is a legal requirement that the founders (owners) state the main goals when the firm is to be registered with the authorities. When individuals invest their funds in a company they consequently have some specific expectations related to the return on their investments. In the final analysis, it is impossible to separate the scholarly term 'goal' from the term 'ownership.' The cases where we find managerial ownership (e.g., Boeker and Wiltbank, 2005) are not addressed here.

Now, who decides the organisational goals? Is it the owners, the managers or the constituents? In the final analysis, the critical question is *not* who influences the goals but who decides them. The main goal of a specific business enterprise is a description of a permanent state in the future with a specific degree of profitability and risk desired by the owners based on their investment time horizon.

The company act confers to the owners (shareholders) the sovereign right to decide the overriding goals and to appoint the executive officer. The argument is, once again, that organisations are structural arrangements which are established in order to achieve specific goals. Therefore, in order to understand organisations, we need to understand their goals. The main issue is *whether* or *to what degree* the organisation achieves its goal. Consequently, goal-attainment becomes the core issue for owners and managers.

Corporate Governance - owners and managers

Stakeholder theory has been offered as an alternative model of corporate governance. Sternberg (1997) has concluded that stakeholder theory is incapable of providing better

corporate governance, business performance or business conduct. The key concept in corporate governance is accountability: the accountability of corporate employees to the corporation via the board of directors. Stakeholder theory explicitly denies that corporations should be accountable to their owners. It is an essential principle of this theory that corporations should be accountable to *all* their stakeholders. This principle is unworkable. An organization that is accountable to everyone is accountable to no one (ibid.).

The corporation is a legal entity and each shareholder is legally stated as the owner of a part of the company. It is possible from the political, economic and financial perspectives to *perceive* that organizations do not have owners, as Fama (1980) has done. It is nonetheless incorrect in formal and legal terms.

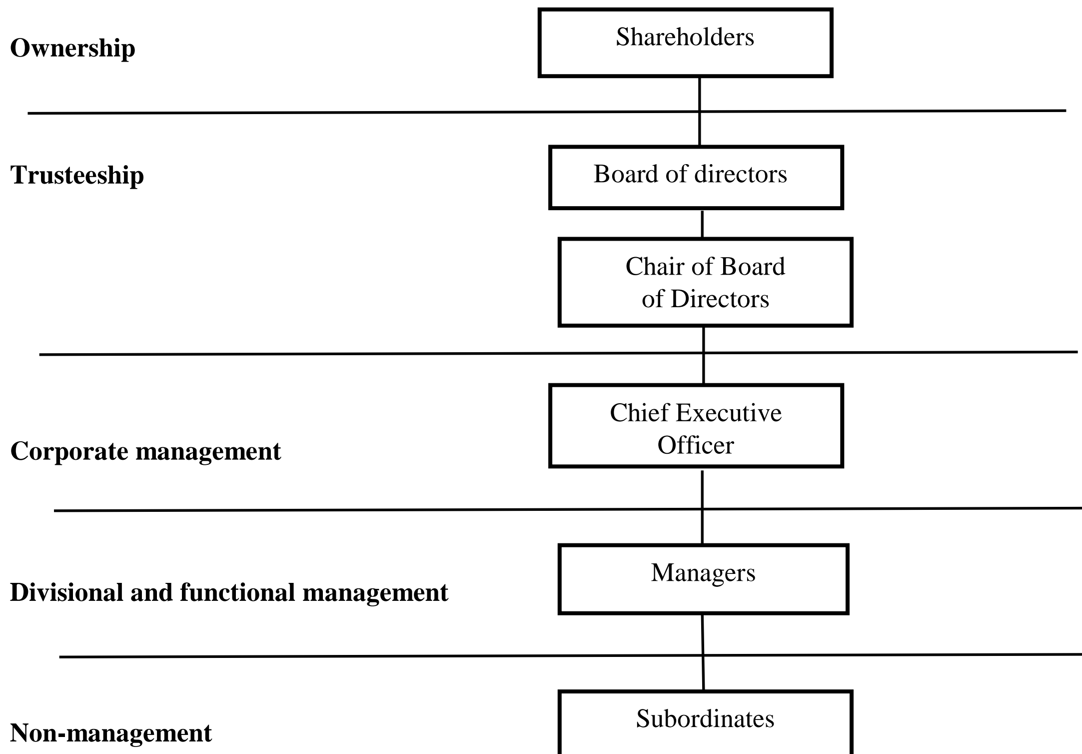
According to rationalistic organization theory there are no stakeholders. External actors do not manage the corporation. They neither exercise control nor have any power over the firm. The environment (external actors) constitutes a framework consisting of (1) political and legal forces, (2) technical forces and (3) economical forces within which the corporation operates (Abrahamsson, 1993). The weakness of stakeholder theory lies in the failure to sufficiently specify the organization-stakeholder relation itself (Letza *et al.*, 2004). Open system theory does not really acknowledge ownership.

Management theory - owners and managers

The relationship between the owners, board of directors and the chief executive officer is addressed in management theory. Jones (2013: 119) distinguishes between four hierarchical organizational levels: Ownership (shareholders), trusteeship (board of directors), corporate management, and divisional and functional management. By including the subordinates the whole chain of command is illustrated in figure 1 (adopted from Jones (2013: 60). The

‘blessings’ of hierarchy is that responsibility and accountability are assigned to individuals (Jaques, 1990).

Figure 1: *The concept of organizational levels.*



Strategic management - owners and managers

The term strategy is often used to describe both the goal, the resources and the plans needed to achieve the goal usually within a five to ten years’ time horizon. The time horizon of the main goal is longer than that of the strategy. Of the five different definitions of strategy proposed by Mintzberg *et al.*, (1998), the one most commonly used defines strategy as a conscious plan of action. The strategic goal must the formulated before the strategic plan can be developed and implemented. Thus, the strategic plan is formulated in order to enhance the attainment of the strategic goal.

The concept of strategy may consist of three dimensions (de Wit and Mayer, 1994): (1) the process of formulating the strategy, (2) the content – what the strategic goal is, and (3) the

context (under what kind of conditions the strategy was formulated and the strategic goal itself). Daft (1994: g-10) defined *strategy* thus: 'The plan of action that prescribes resource allocation and other activities for dealing with the environment and helping the organization attain its goals.' Further, *strategy formulation* was defined as: 'The stage of strategic management that involves the planning and decision making that lead to the establishment of the organization's goals and of a specific strategic plan.' Additionally, s*trategic management* was defined (ibid): 'The set of decisions and actions used to formulate and implement strategies that will provide a competitively superior fit between the organization and its environment so as to achieve organizational objectives.'

Strategic leadership - owners and managers

The study of executive leadership from a strategic choice perspective by Finkelstein and Hambrick (1996), which they titled *strategic leadership*, focused on the executives who have overall responsibility for an organization. To what degree does this work comply with other theoretical contributions and the formal and legal aspects of the relationship between owners (board of directors) and top managers is addressed here.

Agency theory places boards of directors at the center of corporate governance by emphasizing their role in monitoring, and disciplining top management (Fama and Jensen 1983). Monitoring is defined by Jensen and Meckling (1976) as the direct or indirect observation of managerial behavior over time. It can be achieved through budgets, responsibility accounting, rules and policies. Fama and Jensen (1983) saw the board as a guardian of shareholders' interests. Scholars who conduct empirical work focus on such board characteristics as outside representation and ownership equity, and as arbiters of board vigilance.

Finkelstein and Hambrick (1996) suggested another model of boards of directors and

suggested a different approach to the study of corporate governance which could contribute both to the study of strategic leadership and the role of the board in strategic leadership. They wrote (ibid.: 209): 'All public companies have boards of directors, ostensibly to hire and fire senior executives, to set compensation, to review, approve, and evaluate firm strategy, and to generally act as overseers of company business.' If the term 'ostensibly' is deleted from this statement, then it is contrary to Fama and Jensen (1983) who saw the board as a guardian of shareholders' interests according to company law. However, Finkelstein and Hambrick (1996: 210) modified their statement cited above and wrote: 'Conceptually, boards of directors fulfill two roles in organizations. First, they act as buffers and boundary spanners. Second, they play a role in administration and internal control, putatively responsible for setting policy and monitoring management.' They wrote (1996: 9): 'While not charged with routine administration of the firm, boards are responsible for reviewing major policy choices. As we shall see, boards vary widely in the degree to which they involve themselves in strategic choices ...'

According to Finkelstein and Hambrick (1996) top executives can have a very significant effect on their companies because the executive has overall responsibility for the conduct and performance of an entire organization. To Finkelstein and Hambrick (1996) the board of directors were part of the strategic leadership theory. Their definitions of strategy, strategy formulation and strategic management do not contain any guidance as to who make the decision on what the strategic goal should be. Again, the decision on the main goal is the privilege of the owners (boards of directors). It is consequently the privilege of the owners to decide what the strategic goal should be. The managers are then responsible for preparing a strategic plan and for the implementation and control the implementation of the plan. The assessment of the outcome of the strategy in terms of the degree of goal-attainment rests, however, with the owners alone. Contemporary strategic management research is, however,

based on the assumption that managers make strategic decisions (e.g., Gray, Wood and Pillinger, 2012).

Conclusion - owners and managers

Rationalistic organisation theory highlights the relationship between owners, executives, and organisational goals. It is the owners of the organization who have goals for their organization. Corporate governance assigns a proper role to the board of directors which requires a focus on the goal of the firm. The key concept in corporate governance is accountability: the accountability of corporate employees to the corporation via the board of directors. The relationship between the owners, board of directors and the chief executive officer is also addressed in management theory. Owners and managers are placed in an overall hierarchical structure. When it comes to strategic leadership theory as proposed by Finkelstein and Hambrick (1996), the role of the board of directors versus the role of the chief executive is unclear. The implications and definitions of reviewing and involvement in setting policy are not clarified, especially what 'involvement in strategic choices' means.

Letza *et al.* (2004) have noted that through stock markets, share ownership has become dispersed and fragmented and shareholders are more like investors than owners. All the same, this observation does not change the fact that stock holders have the right to appoint directors of the board and thus to take part in major decisions regarding goals and strategies or can refrain from doing so. Letza *et al.* (2004) and Freeman (1984) have stated that owners not only want returns; they also want control. Owner control exists because an owner can expend resources in the form of voting power, voting for directors, voting to support management, or even 'voting' to sell their shares (ibid.). If we regard stockholders as investors, then we only imply that they have decided to be passive owners.

Micro-economic theory says that firms strive for maximum profit. In practice, the degree of profitability set as the goal of the firm depends on the investment horizon and the risk

propensity of the owners. Not all shareholders hold similar investment horizons as some are ‘transient’ and some are ‘dedicated’ (Mostovicz *et al.*, 2011). Any change in the structure of ownership may change the degree of profitability set as the goal of the firm. The perspective of shareholders and investors in general is that their goal is a certain degree of profit and an increase of the value of their assets. The corporation has legitimate obligations and the managers have a fiduciary duty to act in the interests of shareholders (Mayson *et al.*, 1994). The profit margin set by the owners of the firm is the goal set for the managers to achieve. Whatever perspective the researcher adopts, the owner’s perspective remains the same.

The relationship between the board of directors (representing the owners) and the chief executive officer is a *hierarchical* one. Owners hire and fire managers. Owners set the main goals for the organization and they appoint the directors of the board. The board of directors hire the chief executive with the sole task to contribute to the achievement of the owners’ goal. The owners and boards need not be particularly engaged in matters of strategic plans, nor the implementation of plans. Their main attention is directed towards the goal-attainment.

An empirical case: The Volvo-Renault Alliance

The alliance of the Volvo and Renault car manufacturing companies were between the two largest enterprises in their respective countries for economic objectives that virtually all industrial experts applauded (Bruner and Spekman, 1998). In 1990 Volvo and Renault agreed to establish a strategic alliance which had strong support from the chief executive officer, the top management group and board of directors at Volvo. In 1994 the general meeting of shareholders voted against the CEO’s proposal to strengthen the alliance with Renault and decided nullify the alliance. Additionally, the general meeting elected a new board of directors while the CEO resigned (Enquist and Javefors, 1996). This case illustrates that - in the final analysis - the owners decide.

DECISIONS VS. CONTROL

Classical managerial functions – decision and control

The classical writers described the tasks or functions of managers. Fayol (1916/1946) divided the functions into planning, organizing, coordinating, directing and control. In his work on the administrative theory of the state, Fayol (1937: 102) wrote that the duty of the high command in the public sector was 'to conduct the enterprise towards its objective ....' From the writings of Fayol (1916/1946, 1937) and Gulick (1937) it is evident that the goal was decided by the owners and given to the managers to achieve as they both referred to boards of directors.

In reference to Fayol, Gulick (1937: 13) wrote: 'What is the work of the chief executive?' The answer from Gulick was the following: planning, organizing, staffing, directing, coordinating, reporting and budgeting. 'Planning, that is working out in broad outline the things that need to be done and the methods for doing them to accomplish the purpose set for the enterprise.' (ibid.). These functions were seen as the tasks or work areas for which only managers were responsible.

The classical writers presented planning as the first task. In order to plan a goal must be given or formulated. According to the classical descriptions of managerial functions the owners (board of directors) decided the goals while the managers decided the plans – according to the goals given - and were responsible for the execution and control of the plans. As Fayol (1937: 103) has written: 'Control is the examination of results. To control is to make sure that all operations at all times are carried out in accordance with the plan adopted – with the orders given and with the principles laid down. Control compares, discusses and criticizes; it tends to stimulate planning, to simplify and strengthen organization, to increase the efficiency of command and to facilitate co-ordination.'

Based on more than 100 empirical studies Jaques (1976) proposed the concept of time-span and postulated the existence of a universal organizational depth-structure composed of

strata with boundaries at levels of work represented by time-spans. When the notion of time-span is compared with the five managerial functions described by Fayol, several empirical studies reported by Bass (1990) and Bass (2008) show that top managers spend more time on planning and less time on control, while at the lowest levels of management it is the opposite.

Modern managerial functions - decision and control

More recently, some scholars have represented a different perspective on management. Schermerhorn (1993) has described four functions: planning, organizing, leading and controlling. These functions are presented as the managerial process. Planning pertains to setting objectives and deciding how to accomplish them (ibid.). On planning Schermerhorn (ibid.) wrote that planning contains setting objectives and deciding how to accomplish them. Now, the setting of objective, goal and purpose has been taken away *from* the owners (board of directors) and given *to* the managers. Daft (1988) has also taken the decision on goals away from the owners and assigned it to the managers. Johnsen (2002) distinguished between development, adaption and operational goals according to the time horizon. He referred sparsely to owners and ownership and did not link ownership to organizational goals or goal-setting.

In classical management the term ‘control´ was a comparison between a plan and the implementation of the plan. Some contemporary writers conflate the term *control* with the term *assessment*. Cyert and March (1963) have written: ‘In business firms control is fundamental because it enables the alignment of managers’ and subordinates’ capabilities, activities and performance with the goals of the company.’ Merchant and Van der Stede (2007) also linked control to goal-setting. Goal-attainment is the ratio between the result achieved (outcome) and the goal. It is the matter of *degree*. Certo (1989) has stressed the interrelations of the four functions of management to the achievement of organizational goals.

Griffin (1999) has also linked the managerial functions to goal-attainment. Merchant and Van der Stede (2007: 5) have written that 'management control is the back end of the management process'.

Managerial functions and strategic leadership

Fama and Jensen (1983) were concerned with the survival of organizations in which important decision agents do not bear a substantial share of the wealth effects of their decisions. In other word, they addressed the problem which arises when owners and managers are not the same persons. Fama and Jensen (1983) called this the separation of ownership and control.

It is imperative to note that Finkelstein and Hambrick (1996) claimed that executives made strategic choices. They were concerned with why executives made the strategic choices they did. Finkelstein and Hambrick (1996: 2) wrote that '…, strategy and other major organizational choices are made by humans, primarily top executives ...' Thus, the strategic choices were not made by the owners.

Additionally, Finkelstein and Hambrick (1996: 3) wrote: 'Decision makers are informed, influenced, and sometimes constrained by others, both inside and outside the organization. For this reason, we have an interest in senior-level management groups (commonly called top management teams), in the roles and influence of boards of directors, and in the effects of industry norm and models on top executive decisions.' What does 'influence' mean? How can we ascertain that someone has been influenced? In corporate governance scholarship influence is most often used in reference to decision-making. Is the core of this concept the attempt to sway someone, or does it refers to a successful attempt, whereby another person now acts differently or makes a different decision? It is obvious that many attempts to influence other people come to nothing. The individual may acknowledge other alternatives, but this in itself does not change his or her decision or behavior. In order to remove the

ambiguity over whether an attempt to influence someone is successful or not, it is suggested to apply the concept of ‘power’ in corporate governance literature. In organization scholarship power is defined as the ability or possibility to overcome resistance. Thus defined, the question related to decision-making is narrowed down to the question of who in fact decides.

Finkelstein and Hambrick (1996) have referred to Child (1972) who adopted the term ‘strategic choice’ to refer to any willful action of major significance for the organization. Decision is defined as a choice between a number of different alternatives of action. Consequently, the term ‘choice’ does not imply action *per se*, but refers to a mental process identical to what goes for the term ‘decision.’ Decision-making is not operant or overt behavior. What goes on in the heads of other people can neither be monitored nor controlled.

Hambrick and Mason (1984) addressed the formalized, ‘upper echelons’ theory, which proposed that senior executives make strategic choices on the basis of their cognitions and values. Again, the authors, assumed that the strategic choices (strategic goals) are made by the top managers and not by the owners. Finkelstein and Hambrick (1996: 9) also wrote: ‘Boards vary widely in the degree to which they involve themselves in strategic choices.’ What are the implications of the terms ‘involvement’ and ‘reviewing’?

Additionally, Finkelstein and Hambrick (1996: 12) asked: ‘How do boards affect organizational choices, strategy, and performance?’ It is argued here that the question is basically irrelevant when focusing on boards and their ‘affect’ on choices, strategy, and performance rather than on boards’ decisions. Boards of directors do not just affect organizational choices and strategy. Boards alone decide them. No doubt, top executives may orchestrate the formulation of company strategy. They are in fact expected by the boards to do so. The top executives does not only have a role in strategy implementation, which Finkelstein and Hambrick (1996) claimed, they are in fact *responsible* for the implementation of the strategy decided by the owners.

On the question of who sets the goal, Finkelstein and Hambrick (1996) addressed the boards' involvement in strategy formation which is how boards affect choices and strategies. It is notable how Clark (1986: 108) has argued when writing: 'It is unrealistic to view directors as making any significant number of business policy decisions. Even with respect to the broadest business policies, it is the officers who generally initiate and shape the decisions. The directors simply approve them, and occasionally offer advice and raise questions.' By writing this way, the main point about decision-making is missed. If directors approve decisions made by managers, directors are making the decisions. Fama and Jensen (1983) argued that in large organizations the ratification and monitoring of decisions were separated from initiation and implementation of the decisions. Again, when directors ratify and monitor decisions, directors are in fact making these decisions. Moreover, decisions which are not approved or ratified by the board of directors cannot be implemented.

When addressing the relationship between control and delegation, the term 'delegation' needs to be specified. Delegation is the assignment of authority to another person to carry out specific activities. However, the persons or boards of directors who delegated the work or decision making to top managers remain accountable for the outcome of the tasks or authority delegated. Delegation may imply decision-making, however, any decisions delegated from the board of directors to the CEO can be retracted by the board. Thus, the decisions made by the CEO are the decisions of the board of directors. Delegation of decisions is not abdication of decision-making. Responsibility cannot be delegated. If decisions made on the top management level need to be accepted, approved, ratified or sanctioned or if these decision can be overruled or blocked by the owners, then the decision is in reality the decision of the owners.

Hambrick and Mason (1984) have also argued that top managers are generally the most influential organizational actors determining a firm's strategic direction. Finkelstein and

Hambrick (1996: 240) somewhat disagreed when writing: 'However, boards may also play a direct or indirect role in the strategic decision-making process.' Although boards do not always use their implicit power to directly affect the strategy they still have the power to overrule any decision made by any employee (Finkelstein and Hambrick, 1996).

It is evident that the expression *'control these decisions'* as used by Fama and Jensen (1983: 304) needs to be defined. If control is given a usual or encyclopedic definition, are 'control these decisions' words that convey meaning in the ears of scholars? When decision is defined as a choice between a number of different alternatives of action, then it is impossible to control decisions. Humans make decisions by choosing between alternatives. Again, decision-making is a mental process. It is not an action. It is possible to affect the amount and kind of information that individuals need to make decisions and it may be possible to influence their way or reasoning and their priorities. Decisions cannot be controlled, but once the decision is made know to others by verbal utterance or in writing or in specific actions that may indicate a decision being taken, then, and only then, can the decision be nullified or the implementation of the decision be halted.

The classical writers cited above never linked 'control' to 'control of decisions.' It is possible for superiors to ensure that decisions are part on the subordinate's job description. In general, those who make decisions are not those who are to implement decisions. Superiors make decisions which their subordinates need to implement.

When it comes to the organization's main decisions and strategic decisions then the owners and their representatives make these decisions, not managers. Owners (boards of directors) expect that managers present and suggest strategies or strategic plans, but the strategy itself is for the owners to decide. If the owners or board of managers delegate the right to make strategic decisions to the top managers, it is still the decision of the owners.

Main goals and strategies are the foundation of planning. Plans are needed in order to

specify what activities are needed in order to achieve the goal no matter what kind of goal. In the final analysis, goal-attainment is what the organization is all about. It is, however, not carrying out plans that matters; it is achieving the goals that does. One more time: organizations are established in order for the owners to achieve their goals by means of the organization. 'For strategy to be worthwhile, however, it must be consistent with organizational objectives, which in turn must be consistent with organizational purpose' (Certo, 1989: 133). Thus, a clear and logical link between the main goals and the strategy is imperative as well as the link between strategic goals and operational goals. A managerial task is to plan how to achieve the goals (Fayol, 1937). Managers are responsible for implementing the plan.

Fama and Jensen (1983) described the decision process in the corporation contains four steps: initiation, ratification, implementation and monitoring. This description is at best incomplete. It is definitely incorrect because the basic building stone is missing. It all starts with the goal (Andersen, 2016). All organizations are established in order to achieve specific goals for those who established the organization. Again, goals are needed in order to make plans. Fama and Jensen (1983) claimed that initiation and implementation of decisions are typically allocated to the same agent (the top manager), these two decisions were called decision management. 'Decision control' was the term used for ratification and monitoring of decisions and in the hands of the owners. Those who undertake decisions are the professional managers, and those who control these decisions are the owners (boards of directors) according to Fama and Jensen (1983).

Fama and Jensen (ibid.) wrote that control of agency problems in the decision process is important when the decision managers who initiate and implement important decisions are not the owners (major residual claimants). The major question remains unanswered: In the decision process who sets the goals and strategies? When faced with the principal-agent

problem, the primary responsibility of the board of directors is to ensure that top management actions are consistent with shareholder interests (Alchian and Demsetz, 1972; Fama and Jensen, 1983). It follows that boards of directors act to separate decision management from decision control and keep the roles of ratification and monitoring for itself. Empirical research has shown that that boards are not always effective monitors of top management (e.g., Kosnik 1987; Main, O'Reilly and Wade, 1994). Finkelstein and Hambrick (1996) addressed empirical cases were the relative power of the board over the top management is stronger and vice versa. Decision management does not make sense unless those who are entitled to make decision know what goals to achieve. Additionally, implementation cannot start unless a plan is prepared. Fama and Jensen (1983: 304) regarded *decision control* to be the ratification and monitoring of decisions. This implies that managers make decisions and these decision are not valid until the decisions are ratified by the board of directors (owners). Consequently, it is not the managers who make decisions, but they only suggest them. Boards of directors (as representatives of the owners) make all major decisions.

It is a formal and legal privilege of the owners and/or the board of directors to make decisions on main and strategic goals. Additionally, they assess the degree to which these goals are achieved. Managers make plans and operational decisions and are responsible for the execution of the plans based on the goals decided by the owners. What owners and the board of directors need to monitor and thus prevent is illegal, unethical and opportunistic actions by top managers.

Decisions cannot be monitored, as a decision making is mental process. Only activities performed and implementation can be monitored. In real life, boards of directors do not monitor the implementation of plans. Managers do. The definition of control by Fama and Jensen (1983) is not how Fayol (1937) defined it.

Fama and Jensen (1983) claimed that the board is not effective at decision control unless it

limits decision discretion of individual managers. Williamson (1963, 1984) also addressed the problematic side of managerial discretion. He noted that the board of directors can easily become an instrument for management and sacrifice the interests for the stockholders. Domination by top management on the board of directors can lead to collusion and transfer of stockholder wealth (Fama, 1980). As a result, corporate boards generally include outside members who act as arbiters in disagreement among internal managers and ratify decisions that involve serious agency problems (Fama and Jensen, 1983). Empirical research provides evidence about the importance of including outside directors on the board for purposes of monitoring management in acute agency settings. These studies supported the prediction that the composition of the board of director impacts the board's ability to reduce agency costs (Beasley, 1996).

Boyd (1994) referred to Fama and Jensen (1983) but presented no definition of decision control. However, Boyd (1995) referred again to Fama and Jensen (1983) and wrote that corporations respond to potential agency problems by delegating the task of decision management to the CEO, and decision control to the board. Consequently, the CEO has primary responsibility for initiation and implementation of strategic decisions, while the board is responsible for ratifying and monitoring decisions by the CEO. In the study of Johnson *et al.* (2002) decision control is restricted to managers and management teams. The concept is not defined. The authors have no references to Fama and Jensen (1983) and Finkelstein and Hambrick (1996).

Mitchell *et al.* (2011) stated that strategic decisions are those choices made by managers that commit important resources, set important precedents, and/or direct firm-level actions as well as shape a firm's general direction. The claim that managers' strategic decisions shape firms' general directions is turning things up-side down. It is the firm's general direction that shapes the firm's strategy.

Conclusion: Decision and control

When organizations are regarded as contrived entities that are established as vehicles for the owners in order for the owners to achieve *their* goals, then goal-attainment becomes the basic definition of effectiveness. Arguably, the ultimate goal of a firm is profitability (i.e., return on assets) (Shetty 1979; Nash 1983; Walton and Dawson 2001). Profitability can be seen as the major criterion of effectiveness for private enterprises. Profitability, moreover, is the most conventional measure of current business performance (Hambrick, 1983). Additionally, when effectiveness is defined as the degree of goal-attainment and the goal is profitability, it is imperative to stress that the question emerges regarding which degree of profitability. It is the owners who decide what degree of profitability to be their goal for the company depending of their investment horizon and risk-level.

When organizations are established the owners appoint some individuals to act on their behalf. The formal leaders (i.e., managers) are hired to be executives. Their main task is to contribute to the attainment of the goals as decided by the owners. The purpose of the firm is not a problem for the managers. It is the reason why they hold executive positions. It is crucial to stress that the formulation of purposes, goals, strategies and visions in formal organizations is the privilege of the owners, who decide these goals and direct their managers to achieve them.

All in all, the conclusion is this. When directors of the board approve strategic decisions made by managers, ratify and monitor of these decisions the directors are in fact making these decisions. Delegation of decision-making to top managers can be retracted by the board. Decisions on strategy are decisions made by the board of directors representing the owners. The central hypothesis of Fama and Jensen (1983: 321) being: ‘An organization’s decision process consists of decision management (initiation and implementation) and decision control (ratification and monitoring)’ is theoretically falsified. Additionally, the terms *decision management* and *decision control* do not properly described what goes on in organizations. These terms hamper the development of management theory and strategic management

scholarship. For the owners of corporations there are only one issue to assess rather than control, being the degree of the attainment of their goals expressed in terms of profitability.

….. AND THE STAGIRITE

What is true and what is false when it comes to the relationship between the owners and the top managers? What is true and what is false when it comes to the concepts of decision making and control in business enterprises? The very claim which initiated this manuscript was:

'There are two central actors within a corporation - those who take decisions, namely professional managers, and those that control these decisions - the boards of directors.

It is argued that only owners (boards of directors) make decisions on main goals and strategic goals. Owners' main concern is the degree of return on their investment related to their investment horizon and risk preference. Thus, owners (boards of directors) assess and evaluate the degree of attainment of their goals. The term 'control decisions' does not make sense as decisions cannot be controlled. Control refers to a comparison of a plan and its implementation. Managers make strategic plans based on the strategic goals decided by the owners. Managers, however, control by comparing the plan with the implementation of the plan. The claim which initiated this manuscript is now challenged by a claim which reads:

There are two central actors within a corporation - those who make decisions on main and strategic goals, namely the boards of directors (on behalf of the owners), and those who plan how to achieve the strategic goals and control the implementation of the plan, the managers.

Now is the time to introduce the resident of Stagira. Aristotle (2009: 59) wrote: 'To say of what is that it is not, or of what is not that it is, is false, while to say of what is that it is, and of what is not that it is not, is true.'

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