

Studying Error Cultures in Consultancies

What are the Possibilities to Establish Open-Minded Dealings with Errors?

Michael Mohe*, Martin Stollfuß, Jost Sieweke

University of Oldenburg (Germany)
Business Consulting
Ammerländer Heerstraße 114-118, 26121 Oldenburg
*michael.mohe@uni-oldenburg.de
phone: +49 441 798 4183
facsimile: + 49 441 798 4193

Paper type: Research-based paper

Submitted to

MCD 2009

4th International Conference on Management Consulting

Abstract

Literature so far emphasizes the learning potentials of errors for organizations. This possibility to learn from errors is based on a frank communication of employees about their errors (e.g. Van Dyck, Frese, Baer, & Sonnentag, 2005). However, recent studies revealed that employees frequently do not communicate about their own errors because they fear for negative consequences (e.g. A. Edmondson, 1999). To overcome this mechanism, literature on error management culture suggests the implementation of an amnesty for errors within organizations (e.g. Van Dyck et al., 2005). This paper analyses how up-or-out practices within management consultancies affect consultant's dealing with errors. For this purpose, we apply agency and stewardship theory to discuss how the behavior of agents and stewards, with regard to error communication, are affected by up-or-out practices. Our findings reveal that agents are affected by conflicting mechanisms that, on the one hand, increase their engagement into communication about errors and, on the other hand, increase their willingness to engage into whitewashing (e.g. by covering up errors). Steward's behavior is less directly affected since stewards prefer to communicate errors openly for the good of the organization anyway. Nevertheless, if stewards have to interact with agents within an up-or-out culture, the stewards may reduce their honest communication of knowledge about errors.

Introduction

Even though errors often cause problems for organizations (e.g. Zhao & Olivera, 2006), research on errors provides evidence that they are an important source for organizational learning (Argyris, 1993; A. Edmondson, 1999; A. C. Edmondson, 1996; Festner, Bauer, Harteis, Gruber, & Heid, 2005; Keith & Frese, 2005; Miner, Kim, & Haunschild, 1999; Nordstrom, Wendland, & Williams, 1998). Despite these common assumptions, our knowledge about errors, as well as the interplay between errors and learning, is still sparse. This might be because errors are not easily to define (e.g. Kam, 2004; Senders & Moray, 1991; Van Dyck et al., 2005). Additionally, much research about the interplay of the general conditions within an organization and the utilization of the potential benefits of errors is “non-cumulative, largely anecdotal or normative” (Sitkin 1992, p. 260f.; similar Bauer 2008, p. 37). However, few studies provide evidence that the exploitation of errors for learning requires that the organization provides conditions, under which an individual, i.e. an employee, is likely to communicate about his errors. In this respect, recent research has revealed that certain conditions (e.g. support from the management and team psychology safety (Tucker & Edmondson, 2003); helping in error situations (Van Dyck et al., 2005); error strain and safe team climate (Bauer, 2008)) within an organization influence, to what extent the learning potential of failures remains unexploited. Van Dyck et al. (2005 p. 1238) focus on the impact of organizational error management culture on performance and revealed that “quick error detection and recovery, as well as open communication about errors— hallmarks of an error management approach—can have positive implications for organizations.” This finding parallels other studies (e.g. Bauer, 2008; A. Edmondson, 1999; Reason, 1997; Zhao & Olivera, 2006) stating that “[c]ommunication about errors probably constitutes the most important error management practice“ (Van Dyck et al., 2005, p. 1230). This, however, requires that an individual is interested to communicate about his errors instead to discreet or hide them. In this respect, Zhao and Olivera (2006, p. 1015) revealed that employees frequently do not communicate about their own errors because they fear for negative consequences. Thus, van Dyck et al. (2005, p. 1230) recommend to overcome these mechanisms “by rewarding the communication about errors and by inhibiting their punishment.” However, it is still

questionable which precise mechanisms would support or hinder such an error culture (van Dyck et al., p. 1237).

Our paper addresses this question by using the example of management consultancies. It discusses how the up-or-out approach, a common HRM-practice within large consultancies, supports or hinders an open communication of errors of the individual consultants. The up-or-out approach, which decides if an employee enters the next career level or has to leave the organization, is susceptible for our analysis since such HRM-practices are supposed to create “little socially acknowledged space for people to rationalize failures” (M. Alvesson & Kärreman, 2007, p. 721). Hence, it is questionable, if the up-or-out approach rather hinders or supports an open error communication since the consultant has to face the out-consequence when he communicates his individual errors too often or too openly. Consequently, it does not surprise that Argyris (1991) observes a rather defensive attitude of consultants when dealing with their own errors. Therewith, they might pass chance to utilize own errors as a source to engage into organizational learning. Hence, the question arises, how practices within consulting companies affect the willingness and the ability of consultants to detect and to communicate honestly about own errors *and* about errors of colleagues.

This paper provides first insights in a still ongoing research project about consultants' dealing with errors by discussing the following questions:

- a) How does the up-or-out approach affect the consultant's dealings with internal errors?
- b) How does the reaction of the consultants towards this HRM-practice affect the organization?
- c) To what extent is a none-punishment-culture compatible with this HRM-system?
- d) How does the reaction of the consultants towards a none-punishment-culture affect the organization?

In order to answer these questions, we apply agency and stewardship theory since both provide contrasting assumptions about human behavior and thus dealings with errors. While an agent is characterized as being self-serving and opportunistic, a steward is characterized as collective serving and benevolent.

Our paper is structured as follows: In the next chapter, we discuss different perspectives on errors within organizations and options of the employees for dealings with internal errors. In the third chapter, we introduce the concept of man through the perspectives of stewardship and agency theory. In the fourth chapter, we theorize the effects of HRM-systems within consultancies on the dealing of consultants with internal errors by applying stewardship and agency theory. In the fifth chapter, we discuss our findings and develop implications for the improvement of the HRM-system of large consultancies. Finally, we discuss limitations of our research.

Perspectives on Errors

Errors from the Perspective of the Organization

Errors are not easily to define (e.g. Kam, 2004; Senders & Moray, 1991; Van Dyck et al., 2005). This is due to the fact that “‘error’ is not an objective characteristic describing an action or its result” (Bauer & Mulder, 2008, p. 117; Harteis, Bauer, & Gruber, 2008). Senders and Moray (1991, p. 19) even consider that “[t]here is really no such thing as an error.” Thus, errors are supposed to be more or less ambiguous (e.g. Kam, 2004). In literature definitions are common defining an error as the „gap between an expected and real state” (Zhao and Olivera 2006, p. 1013; similar e.g. Reason 1990; Van Dyck et al. 2005). However, as soon as the “real state” and/or the “expected state” cannot be perceived inter-subjectively the classification of a situation becomes ambiguous.

Bauer and Mulder (2008, p. 117) define an action in the context of work as an error “if (i) it is judged as a deficient deviation from an expected standard (ii) by knowledgeable and central members of a given occupation, organisation, or local community of practice, (iii) at a given point of time.” This definition, however, does not consider which intention induced the action.

Further attempts are based on the intention of the action that caused the gap between expected and real states (Reason, 1990; Van Dyck et al., 2005; Zhao & Olivera, 2006). This helps to distinguish between slips (gap was not intended, but the real action

proceeded not according to the planned action), rule-based mistakes and knowledge-based mistakes (action proceeded as planned, but the gap was not intended) on the one hand, and, on the other hand, between errors and violations (action proceeded as planned *and* the gap was intended). This distinction might be selective for analytical reasons. However, within social interaction a detection of the intention of an action might be quite difficult in many cases. Therefore, almost any organization sometimes faces the problem not to be able to decide, whether an error was committed with the knowledge about the harmful result for the organization or not.

Zhao and Olivera (2006, p. 1013f) distinguish errors a) from failures and b) suboptimal results. They define failure as “a negative or undesired outcome.” They argue, that, if failure is an expected outcome (e.g. “in the context of experimentation”), “failure (...) is unavoidable and therefore does not constitute error.” This argumentation might be problematic due to a lack of specification about the relation of errors, expectations, risk and different interpersonal abilities, competencies, or skills. Furthermore, a situation, in which a “failure may be an expected outcome” does not always immunize against errors (e.g. does a situation, where success is a possible outcome always allow the emergences of errors?). The distinction between errors and suboptimal results indicates that the distinction between error and no error might be fuzzy in organizational life. Suboptimal results may be regarded as a bordering construct.

In the light of the difficulties above we abstract to those situations, in which an acting individual might be held responsible for that, what is regarded as an error by the organization, which allows us to analytically clearly separate an error from no error.

Errors from the Perspective of an Individual

According to Zapf and Reason (1994) most research about human errors assumes that human behavior is goal orientated. Therefore discussions about dealing with (potential) errors have to consider, which goals determine whether an employee regards a situation as (no) error from his *own* perspective. For analytical reasons we assume that an employee is more or less able to evaluate situations separately from his own perspective

and from the perspective of the organization and that he is more or less aware about potential goal conflicts between own goals and the goals of the organization. However, literature on cognition and human error indicates that individuals often have problems detecting their own errors (e.g. Sellen, 1994; Zapf & Reason, 1994).

Options of the Employee in Dealing with Errors

If errors get not detected by the organization, employees have several options for their dealings with errors (Zhao & Olivera, 2006, Table 2):

- Reporting as it is
- Rationalized reporting
- Blaming someone else
- Covering up
- Handling on one's own
- Ignoring it

As already noted above, an active communication is a necessity that errors, which are not detected by the organization, may cause organizational learning.

Concept of Man through the Perspectives of Stewardship and Agency Theory

We analyze the influence of specific organizational practices on consultants' behavior with (potential) internal errors both from the perspective of stewardship and agency theory.

Stewardship theory has been introduced as a critic towards agency theory. Besides some shared central assumptions about the model of man, the two theories differ elementarily. The divergent concepts of man induce far reaching consequences regarding the recommendations about how organizations should govern their employees (Davis, Schoorman, & Donaldson, 1997).

Both theories assume that individuals seek to maximize their utility and that individuals are confronted with bounded rationality. Consequently, individuals are supposed to act intentionally rational (Grundeis, 2008, p. 148). The differences between stewardship and agency theory root in the assumption about the origin of the motivation which determines

the behavior of an individual (Davis et al., 1997; Sundaramurthy & Lewis, 2003). Whereas agents are supposedly (extrinsically) motivated by lower and economical needs (e.g. physiological, security, economic), stewards are (intrinsically) motivated by higher order needs (e.g. growth, achievement, self-actualization).

The behavior of stewards may be characterized as collective serving and benevolent, while the behavior of agents may be characterized as self serving and potentially opportunistically. Specifically, “[s]tewards maximize their utility as they achieve organizational rather than self-serving objectives” (Davis et al. 1997, 26). In contrast, the agent is primarily interested in his own and not the well-being of the organization. Therefore, the agent is assumed to behave opportunistically in order to maximize his own utility (e.g. E. Fama & Jensen, 1983; E. F. Fama, 1980; Shapiro, 2005). Consequently, the relation between a principal and an agent is likely to be confronted with goal conflicts, whereas the goals of the steward are aligned with the goals of the principal - as long as the basic lower order needs of the steward are satisfied (Davis et al., 1997, p. 25) and the steward is aware about the goals of the principal. Thus, the wrongdoings by an agent through the perspective of the organization may be classified either as intended violations (due to opportunistic behavior) or as unintended failures (due to bounded rationality or bounded skills), whereas wrongdoings by stewards can only be classified as unintended failures (Grundei, 2008, p. 149).

Both concepts of man have different challenges for organizations. In either case the organization has to face the challenge to deal with “honest incompetence” of the employees (Grundei, 2008, p. 149). This includes the challenge to identify errors, which are not perceived as errors by the employees, who caused the errors. Through the lens of the agency theory, organizations have to build governance systems to hinder or reduce the agent’s tendency to act opportunistically (Levinthal, 1988). Through the lens of the stewardship theory organizations have to build governance systems which do not demolish the natural anxiety of stewards for the engagement into pro-organizational behavior.

Appropriate governance systems for either agents or for stewards can be characterized as mistrust based for agents and as trust based for stewards. The use of incentive and monitoring systems has been proposed to efficiently govern agents, while it has been

suggested for organizations to increase the motivation of a steward by giving him high authority and discretion (Davis et al., 1997). The implications about the governance systems for stewards have been criticized since the potentially harmful factor of “honest incompetence” is neglected (Grundei, 2008). Through the lens of the agency theory laissez-faire-governance structures are supposed to be harmful for the organization anyway. If the organization treats the steward as if he was an agent, “the result is likely to be a very frustrated [steward] who feels betrayed by the [organization]. When stewards are controlled as if they were agents, they cannot enjoy the types of internal rewards they desire (i.e., growth, achievement, or self-actualization), and as a result, they may engage into anti-organizational behaviors“ (Davis et al., 1997). Table 1 summarizes the assumptions of both theories.

Table 1: Comparison between agency theory and stewardship theory

	Agency	Stewardship
Assumptions about the causes for individuals to act in a certain way	Bounded rationality	
	Utility maximizer	
	Motivated by lower order needs (physiological, economical, security)	Motivated by higher order needs (growth, achievement, self-actualization)
	Extrinsic motivation	Intrinsic motivation
Assumptions about the flexibility of the pattern of behavior	Immutable	Variable -> Self-fulfilling prophecy
Potential of goal conflicts between the organization and the individual	Extremely high	Extremely low
Behavior of individuals	Self serving and potentially opportunistically	Collective serving and benevolent
Categories of wrongdoings by employees	Intended violations (due to opportunistic behavior)	
	Unintended failures (e.g. due to lack of knowledge): “honest incompetence”	
Challenges for the	Motivating/controlling the agent to	Not to demotivate the steward to

organization	behave pro-organizational Reduce the space to act opportunistically	behave pro-organizational
	Controlling "honest incompetence" Identifying errors, which are not perceived as errors by the employees, who caused the errors	
Character of the relationship between organization and employees	Based on distrust	Based on trust
Governance structures that facilitated pro-organizational actions of the employees	Incentive and monitoring systems	High authority and discretion [has been criticized lately]
Governance structures that harm pro-organizational actions of the employees	Laissez-faire (e.g. high authority and discretion)	Monitoring systems

(e.g. Davis et al., 1997; Grundei, 2008; Sundaramurthy & Lewis, 2003)

When looking at management consultancies, it is difficult to determine if consultants are rather agents or stewards. Some of the characteristics of consultancies (e.g. challenging tasks; potentially high impact on the client's company; enormous working-hours; magnificent opportunities for rapidly being promoted to a level with higher responsibility) might attract stewards, while other conditions (e.g. first-class payment; status symbols (e.g. luxury accommodations); magnificent opportunities for rapidly being promoted to a level with higher payment) might attract agents. Therefore, consultancies have to face the challenge that it is likely that they attract agents as well as stewards.

Effects of HRM-Systems within Consultancies on the Dealing of Consultants with Internal Errors

Several studies directly aim at analyzing the impact of specific practices within professional service companies, e.g. the effect of a professional partnership as a form of

governance (Greenwood & Empson, 2003), the function of the recruiting-process of consulting companies (Armbrüster, 2004), the interfaces of different forms of control within consulting companies (M. Alvesson & Kärreman, 2004) and effects of human resources management (HRM) systems and practices in large multinational management consultancy firms (M. Alvesson & Kärreman, 2007). Even though none of these studies aims directly to analyze the impact of the practices on consultants' dealings with (potential) internal errors, they provide important insight in frequently used practices in consulting companies.

According to these studies, the combination of two practices is no rarity within large consulting companies, i.e. the up-or-out approach which is often accompanied with a feedback culture.

The term „up-or-out“ refers to a special concept of organizational career advancement opportunities, which is common in elite and large professional service firms (Greenwood & Empson, 2003). The central idea of up-or-out is that employees can remain on a hierarchical level for just a certain period of time. If the employee is not promoted to higher rank within this period, the employee has to leave the company. Therefore, the employees face an internal competition against their colleagues for limited chances of being promoted to a higher rank. In many cases consultancies (suppose to) base their decisions to “upgrade” a consultant on internal evaluations. Thus, the up-or-out practice is often interwoven with a feedback-culture (e.g. M. Alvesson & Kärreman, 2004; Greenwood & Empson, 2003). Alvesson and Kärreman (2004, p. 431) attest in a case study the observed consulting company a fairly strictly formalized feedback culture on employees and projects. Employees are evaluated in steady intervals by their managers regarding their personal development and their overall performance. Several standardized evaluating practices are applied in order to achieve (and/or to signal) a fair and unbiased evaluation process, e.g. apprenticeship (Greenwood & Empson, 2003, p. 918), standardized software and policy documents (M. Alvesson & Kärreman, 2004, p. 431). However, an empirical study of Alvesson and Kärreman (2007) raises doubt about the validity of the HRM-system. Anyway, these practices shape the internal environment of a company and,

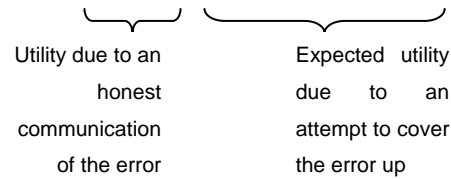
therefore, we aim to discuss how they influence the behavior of agents and stewards regarding the dealing with (potential) errors.

The agent strives to get evaluated better than his colleagues. The agent does not bother which (negative) effects his actions induce for the organization, as long as these negative effects are not part of the evaluation. Nor does the agent care whether actions that get rewarded are really desirable from the perspective of the organization – e.g. if sales are rewarded, the agent will also strike to accomplish sales, even if the organization temporarily needs to reduce sales due to a bottleneck. In contrast, a steward is supposed to be anxious to behave to the welfare of the organization. The steward will only follow the criteria, if he is convinced that these criteria really represent the perspective of the organization. The decision criteria might offer a helpful orientation point for the steward in the search for action guidelines from the perspective of the organization.

Dealing of Agents with Knowledge about Errors

Several options are at the disposal of the agent for improving his ranking within the evaluation system. Besides an improvement of his performance (absolute improvement), the agent might have the options to defame the performance of his colleagues or to whitewash his own performance (relative improvement). In order to be able to estimate the potential utility of different options for dealing with knowledge about own errors an agent seeks to anticipate the reaction of the organization with regard to the estimated overall duration of the social interaction between him and the social network of the organization. Within this cost-benefit evaluations (Zhao & Olivera, 2006, p. 1015 and 1019f) the agent might consider the likeliness of the detection of attempts to cover up an error (W_e), the value of damage due to self-induced errors (S_f), the value of damage due to attempts to cover up a self-induced error (S_v), and the reward for honest communication about self-induced errors (B_{ok}):

$$B_{ok} - S_f > W_e ((-S_f) + (-S_v))$$



B_{ok} : Rewards for honest communication of a self-induced error

S_i : Damage due to the emerge of a self-induced error

W_e : Likelihood of an error to be detected by someone else. If $W_e = 1$, than no options for action remain

S_v : Damage due to detected attempts to cover up a self-induced error

A (risk neutral) agent is going to engage into honest communication of knowledge about a self-induced error, if he assumes that the *utility due to an honest communication of the error* is larger than the *expected utility due to an attempt to cover the error up*.

Options for the Organization to Govern how Agents Deal with Knowledge about Errors

From the perspective of the agency theory the agent would boost his attempts to honestly communicate knowledge about self-induced errors, if the general conditions were changed in a way that mechanisms caused either to step the left term of the equation up or that caused to scale the right term of the equation down. On the one hand an increase of the probability that self-induced errors are detected by other employees might enforce the agent to honestly communicate knowledge about own errors (monitoring systems). On the other hand an increase of the sanctions for attempts to cover up a self-induced error, a reduction of sanctions for self-induced errors and an increase of rewards for honest communication about self-induced errors might induce the agent to expand his engagement in honest communication of knowledge about self-induced errors (incentive system). The most extreme arrangement would be a complete amnesty for self-induced errors.

As a matter of fact, advices for those systems are quiet common within research. While some recommend to monitor employees (e.g. Levinthal, 1988), others recommend to inhibit the punishment of errors and to reward the communication about errors (van Dyck et al. (2005) p. 1230; similarly e.g. Edmondson 1999; Harteis et al. 2008, S. 225). This

implication is implicitly based on the concept of an agent, because stewards are supposed to disclose own errors anyway.

Evaluation of the Implication to Reward the Communication about Errors and to Inhibit Their Punishment

For consultancies an application of the combination of rewarding honest communication of self-induced errors and an inhibiting of their punishment might cause undesired effects: First, it would push the up-or-out practice to the point of absurdity, if errors might neither be directly nor indirectly included within the evaluation of the performance and the skills of an employee: Errors might, for example, throw light on a lack of skills or a lack of benevolence of an employee, which had not attracted the attention of the organization so far (e.g. hidden characteristics or hidden intentions). The organization might get into troubles to justify the promotion of an employee to a higher rank, if the employee either makes evidently more errors than other employees or if he is evidently less skilled than other employees.

Second, through the perspective of the agency theory, one might expect substantial negative effects on the behavior of agents: An amnesty for errors would cause a change regarding the distribution of risks. The agent would be relieved of any personal risk, even, if he engaged into actions that were highly risky for the organization and that had a relatively low expected return on investment. If success is rewarded, the agent might escalate his engagement into these kinds of actions. Through the perspective of an agent that kind of asymmetry of risk might be characterized by "*I win or the organization loses.*" An empirical survey of Kriegesmann et al. (2006) supports the assumptions about a coherence of the general conditions regarding the personnel sanctions for errors and the engagement into risky actions. The authors empirically revealed that within an organizational environment, where errors are not strictly punished, on the one hand employees extend their engagement into risky actions (e.g. exploration), but on the other hand the rate of successful innovations decreases. Hence, a decrease of the rate of successful innovations might cause financial problems for an organization. Therefore, the

situational context has to be analyzed, in order to determine, whether the engagement of the employees into risky actions really lies in the interest of the organization.

Third, from the perspective of the agency theory the implication reaches its limits, if it is practically not possible to distinguish (unintended) errors from (intended) violations free of doubt. An amnesty for gaps between expected standards and real standards from the perspective of the organization would therefore open the floodgates for agents to engage into opportunistic behaviors.

For those reasons, the recommendation to combine a rewarding for communication about errors with an amnesty for errors does not fit in the landscape of large consulting companies from the perspective of the agency theory.

Evaluation of the Implication to Monitor the Agent

Monitoring systems in the context of an up-or-out practice might boost the transparency of errors via two mechanisms: The feedback culture contains prevailing circumstances that give employees opportunities to either directly observe the actions of other employees or to deduct the actions later on. Within the competition for promotion, we assume that the agent strives to improve his rating in comparison to his rivaling colleagues by uncovering their errors.

The more-eye-principle may help to detect errors, which would have been beyond the perception of the employee that caused them (=creating additional knowledge about internal errors). Additionally, as a consequence of the systematic engagement of the agents into observing the actions of their colleagues, the likeliness raises that internal errors will be detected by someone else. The latter effect causes that the option to honestly communicate knowledge about own errors becomes more attractive for the agent (=boosting the communication of existing knowledge about errors).

Dealing of Stewards with Knowledge about Errors

Based on the assumptions of stewardship theory, we deduct different assumptions about the behavior of stewards in cases of knowledge about internal errors caused by himself or by colleagues. A steward will honestly share his knowledge about self-induced errors even in cases when the communication might cause a financial damage (e.g. in the context of the up-or-out practice) since he values organizational success higher than his own lower order needs. The steward is also likely to share his knowledge about errors that were caused by a colleague, even if he does not receive any financial reward. Again, the organization's success is of higher order for the steward than his own financial utility.

Research about human errors indicates that errors may induce negative emotions (e.g. shame, guilt) (e.g. Rybowskiak, Garst, Frese, & Batinic, 1999). Since a steward feels coherent with the organization, it is likely that these negative emotions occur in situations when stewards make errors. Therefore, the steward will be disappointed with himself, if his behavior causes damages to the organization. These negative interferences of the self-esteem of the steward, however, may have a negative effect on the performance of the steward (Cannon & Edmondson, 2001). Therefore, from the perspective of the stewardship theory, organizations can be advised to emphasize the positive effects of errors – e.g. chances for personal and organizational improvement - towards stewards.

Stewardship theory has not been yet applied to complex social interaction, where on different hierarchical levels agents as well as stewards compete against each other regarding limited opportunities for being promoted to a higher rank. Therefore it is not possible to refer to scientific knowledge regarding the question, how a steward reacts, if he feels deceived within the competition about career advancement opportunities; e.g. if the instruments of the evaluation are not able to reveal that his rivals make use of opportunistic actions (e.g. keeping self-induced errors secret) or that his supervisor expects him to engage in opportunistic behaviors in order to increase the personal utility of the supervisor at the expenses of the organization. However, based on the suppositions of agency and stewardship theory, we assume that stewards find themselves in the horns of a dilemma when they work in an organization where errors are frequently kept secret and the disclosure of self-induced errors may have a negative effect on the career.

Within this kind of working environment, no option for action would entirely represent the perspective of the organization. If a steward honestly disclosed his knowledge about self-induced errors, the steward would relatively decline on his evaluation compared to equally skilled agents. Therefore the steward would lose the competition about limited career advancement opportunities. The bottom line is that the pattern of dealing with errors of a steward would crowd out stewards of an organization, if the up-or-out-practice was applied and opportunistic actions with errors took place out of the perception of the evaluation instruments. However, to the benefit of the organization employees on an equal level of skills should be promoted to a higher rank, which has more stewardship. Hence, contradictorily, from the *perspective of the organization* the steward should engage into actions that are usually not in *the perspective of the organization* in order to counterbalance asymptotic biases within the evaluation procedures. Against the background of the knowledge that stewards may reduce their pro-organizational pattern of behavior under certain circumstances (Davis et al., 1997), it seems likely that stewards lean towards reducing the pattern of behavior, which can be considered as pro-organizational in a social environment of other stewards, if they assume that on the one hand this preferred pattern of behavior is steadily being sanctioned and on the other hand opportunistic behavior is tolerated and rewarded.

With the regard to the question, how stewards deal with internal errors we analogically assume that the combination of an up-or-out practice with insufficient valid evaluation instruments has two fundamental effects on the pattern how stewards deal with internal errors. First, it reduces the motivation and the effort of the steward to denounce wrongdoings of his supervisors because in order to avoid mechanisms that would crowd out stewards (e.g. use of micro political power by the supervisor). Second, it constrains the steward to actively engage into wrongdoings (e.g. whitewashing own productivity by disclosing own errors or by faking the amount of working hours) in order to counterbalance mechanisms that would crowd out stewards.

Findings of Alvesson and Kärreman (2004, p. 433ff) provide some first insights regarding this proposition. The study enhances the hunch that the combination of up-or-out practice and an invalid evaluation culture misleads employees to engage in obtaining better

ratings regarding their performance (and skills) by fraud (hidden action). Specifically, Alvesson and Kärreman (2004) observed that consultants did not list overtime, which is not compensated by the organization anyway, towards the project-controlling. As a result the registered performance of the consultants and of the project team becomes whitewashed („ghosting“). Since the evaluation of the project leader is attached to the performance of the project team, whitewashing of the performance of the project team advances the rating of the project manager. According to Alvesson and Kärreman (2004), the project managers enforced the consultants to whitewash the performance of the interconnection of consultant, project team and project manager. Therewith they consciously tolerated the negative effects of ghosting on the consultancy, e.g. misallocation of manpower. Nevertheless, besides one exception, all consultants engaged into whitewashing. Already this asymmetrical distribution might astonish if one considers that also highly skilled stewards might be attracted by consultancies in the first place. The attitude at the bottom of the engagement in whitewashing might be reflected by a statement that was captured by Alvesson and Kärreman (2004, p. 434): „In the first place you are loyal to yourself. In the second place you are loyal to the project, and only in the third place are you loyal to the firm.“ The only consultant that refused (in the first place) to engage into ghosting induced irritation along his supervisor and his colleagues. This singular case indicates two things: First, (M. Alvesson & Kärreman, 2004, p. 436) “it might hurt you not to cooperate, as demonstrated by the participant who was “executed” in his evaluation when he refused to fake the numbers.” Secondly, even though the punishment of antagonism seems hard, the consultants even believe that antagonism is punished unforgivable: “the audience is stunned (...) because he, as someone puts it, is still at the firm”. Interestingly, after being punished the consultant changed, regarding the declaration of working hours, his pro-organizational behavior.

Difficulties to Increase the Knowledge about Errors of Stewards

Monitoring and incentive systems are not necessary in order to govern the steward to honestly deal with knowledge about internal errors. Anyway, if internal errors are not detected, opportunities to learn remain unutilized (e.g. Bauer, 2008; A. C. Edmondson, 1996). Therefore an organization might be interested to reveal those errors that are not

detected by the steward anyway. According to the findings of the stewardship theory this project appears to be very tricky, because stewards might react with an engagement into anti-organizational behaviors, if he interprets monitoring systems as an expression of mistrust (e.g. Davis et al., 1997; Greenwood & Empson, 2003, p. 39f).

Conclusion

Before reviewing our findings related to our four research questions, we first have to assert that it is difficult in the context of consultancies to discuss about *the* consultant. As we have shown in this paper, stewards and agents are attracted by working conditions in consultancies. Hence, it is likely that both natures of man can be found in consultancies. This complicates the discussion about the effects of HRM-systems on dealings with internal errors.

Effects of the Up-or-Out Practice on Consultancies

Regardless the concept of man, the up-or-out practice and its evaluation culture are held responsible for several positive effects, e.g. they “motivate professionals (...) to work excessively hard” (Greenwood & Empson, 2003), attract high potentials by giving them “identity” and support the development of the skills of high-potentials (M. Alvesson & Kärreman, 2007) as well as their application may induce a signaling-effect to the clients about having high-performance personnel (Armbrüster, 2004).

Discussing research questions one and two, we conclude, that the effects of the up-or-out practice on dealings with errors is addicted to the idea of man (being agent vs. steward). Agents seek to raise their own economical utility. In order to be able to climb the ladder, they aim to whitewash their performance by covering up their errors. Stewards, on the other hand, look upon the disclosure of errors as something “bad” – instead they honestly admit their errors since it is to the organization’s and therefore for their own best.

As soon as two or more consultants meet within an organization it becomes a matter of fact which ideas of man get together. Given that agents have to balance the risk to be sneaked or admit errors in their own right, consultancies relying on employees who all

together follow the ideas of agents will have some benefit from the up-or-out practice and its evaluation culture since more errors become observable. Consultancies with only stewards “on board” will also have some benefit from the up-or-out practice and its evaluation culture since the more-eye-principle allows the detection of errors that had been beyond the perception of the steward who caused the error. However, within consultancies with a mixed workforce of stewards and agents, the up-or-out practice and its evaluation culture might cause virulent effects on stewards. If stewards interpret the practice as expression of distrust by the organization or if they feel betrayed by the agents who whitewash their own performance, the steward might be provoked to change his pro-organizational pattern of behavior. As a consequence stewards might start to cover up own errors as well. The behavior of agents within mixed workforces does not differ from their behavior within social interaction with other agents.

Compatibility of the Up-or-Out Practice and a None-Punishment-Culture

Discussing research questions three and four, we can conclude that literature has so far praised none-punishment-culture as an appropriate mechanism to increase the willingness of employees to honestly communicate about (own) internal errors (A. Edmondson, 1999; Harteis et al., 2008; Van Dyck et al., 2005). However, our discussion has revealed that this approach is not compatible with the up-or-out practice since it degrades its signaling effect (Armbrüster, 2004).

Furthermore, from a theoretical perspective, our findings reveal that a none-punishment-culture is neither necessary through the perspective of stewardship theory because stewards disclose knowledge about (own) errors anyway, nor appropriate through the perspective of agency theory because agents would exploit the tolerance to engage into opportunistic behavior. Therefore, according to our theoretical discussion, the implication of literature has to be refused due to the negative side effects for the organization.

Implications

All in all, we conclude that through the perspectives of stewardship and agency theory, the up-or-out system and its evaluation culture seems to induce considerable advantages for consultancies under the acceptance of a relegation of stewards(hip) and under the acceptance of a waste of some potential for the organization to learn from errors.

However, as long as no alternative HRM-model exists which creates the same advantages without causing any negative effects, implications have to aim to reduce the negative effects without prejudicing the positive effects. This goal can be attained by constraining the range of feasible opportunistic actions and by actively engaging into the management of the impressions that are induced by the HRM-system along the consultants.

With regard to the former, we can state that organizations face the task to prevent themselves from being exploited by employees who have united and act against the organization's interests. Hence, organizations have to establish mechanisms which prevent the alliance of employees against the organization. Furthermore, the analysis has highlighted problems when dealing with potential errors which can occur in cases where an employee is being evaluated by a supervisor whose own promotion is influenced by the result of the evaluation. A release of the right to evaluate in cases where the supervisor himself is affected by the result of the evaluation would dwarf the constitution of alliances and misuse of power by the supervisor.

With regard to the latter, we can recommend organizations to mask possible intentions to lever trust by the application of monitoring systems in order to avoid that employees regard monitoring systems as expression of the organization's distrust. Instead, even if monitoring systems act as functional equivalent of trust, organizations should legitimate the application of monitoring systems by vehemently pinpointing the function of the system as mechanism to improve the potentials of their employees and as means for a fair promotion. Nevertheless, on a subtle modality organizations should ensure that employees believe that the monitoring systems bear the potential to detect opportunistic actions.

The empirical study of Alvesson and Kärreman (2004; 2007) indicates a large room for improvement regarding the first of these aspects. Regarding the second aspect, their analysis reveals less cause for concern:

„They [the consultants] claim that the HRM system delivers good feedback, fair assessment, input plus resources for improvement, and meritocratic promotion“ (M. Alvesson & Kärreman, 2007, p. 711).

Limitations

Despite its contributions, this study also has certain limitations, which have to be discussed. First, the nature of man conceptualized in this paper is quite theoretical. In practice, it might be difficult to find human beings who constantly act as either agent or steward. Second, the conception of errors in the context of work applied in this study is based on the ontological concept of realism and the epistemological concept of positivism. It is rather questionable if all errors within the context of work are indeed “objectively measurable”. It is probable that at least some errors lie “in the eye of the beholder”. This might especially be the case for business consulting, since consulting service has often been characterized as being immaterial and ambiguous (Mats Alvesson, 1993; Glückler & Armbrüster, 2003), which hinders an “objective” evaluation of what can be defined as an error. However, we do not focus our analysis on micro-political struggles for the power of definition of errors. Third, both steward and agent are conceptualized as atomized actors, i.e. actors without any personal relationship with other actors (Granovetter, 1985). We assume, however, that personal relationships between actors influence the likeliness of communicating errors of colleagues. Fourth, the HRM-practices analyzed in this study may be also influenced by other practices within management consultancies, which in turn also influence the dealings with errors.

References

- Alvesson, M. (1993). Organizations as Rethoric: Knowledge-Intensive Firms and the Struggle with Ambiguity. *Journal of Management Studies*, 30, 997-1015.
- Alvesson, M., & Kärreman, D. (2004). Interfaces of control. Technocratic and socio-ideological control in a global management consultancy firm. *Accounting, Organizations & Society*, 29, 423-444.
- Alvesson, M., & Kärreman, D. (2007). Unraveling HRM: Identity, ceremony, and control in a management consulting firm. *Organization Science*, 18, 711-723.
- Argyris, C. (1991). Teaching Smart People How to Learn. *Harvard Business Review*, 69(3), 99-109.
- Argyris, C. (1993). Knowledge for action: A guide to overcoming barriers to organizational change. San Francisco: Jossey-Bass.

- Armbrüster, T. (2004). Rationality and Its Symbols: Signalling Effects and Subjectification in Management Consulting. *Journal of Management Studies*, 41, 1247-1269.
- Bauer, J. (2008). Learning from errors at work. Studies on nurses' engagement in error-related learning activities. Unpublished Dissertation, Universität Regensburg, Regensburg.
- Bauer, J., & Mulder, R. H. (2008). Conceptualisation of learning through errors at work: a literature review. In S. Billet, A. Eteläpelto & C. Harteis (Eds.), *Emerging perspectives on learning through work* (pp. 115-128). Rotterdam: Sense Publishers.
- Cannon, M. D., & Edmondson, A. C. (2001). Confronting failure: antecedents and consequences of shared beliefs about failure in organizational work groups. *Journal of Organizational Behavior*, 22(2), 161-177.
- Davis, J. H., Schoorman, F. D., & Donaldson, L. (1997). Toward a Stewardship Theory of Management. *Academy of Management Review*, 22(1), 20-47.
- Edmondson, A. (1999). Psychological Safety and Learning Behavior in Work Teams. *Administrative Science Quarterly*, 44(2), 350-383.
- Edmondson, A. C. (1996). Learning from Mistakes Is Easier Said than Done: Group and Organization Influences on the Detection and Correction of Human Error. *Journal of Applied Behavioral Science*, 32(1), 5-28.
- Fama, E., & Jensen, M. (1983). Separation of ownership and control. *Journal of Law & Economics*, 26, 301-325.
- Fama, E. F. (1980). Agency Problems and the Theory of the Firm. *Journal of Political Economy*, 88(2), 288-307.
- Festner, D., Bauer, J., Harteis, C., Gruber, H., & Heid, H. (2005). Learning from errors: Good conditions in enterprises? In H. Gruber, C. Harteis, R. H. Mulder & M. Rehl (Eds.), *Bridging Individual, Organisational, and Cultural Perspectives on Professional Learning* (pp. 264-274). Regensburg: S. Roderer Verlag.
- Glückler, J., & Armbrüster, T. (2003). Bridging Uncertainty in Management Consulting: The Mechanisms of Trust and Networked Reputation. *Organization Studies*, 24, 269-297.
- Granovetter, M. (1985). Economic Action and Social Structure: The Problem of Embeddedness. *American Journal of Sociology*, 91, 481-510.
- Greenwood, R., & Empson, L. (2003). The Professional Partnership: Relic or Exemplary Form of Governance? *Organization Studies* (01708406), 24(6), 909-933.
- Grundeis, J. (2008). Are Managers Agents or Stewards of Their Principals? Logic, Critique, and Reconciliation of Two Conflicting Theories of Corporate Governance. *Journal für Betriebswirtschaft*, 58(3), 141-166.
- Harteis, C., Bauer, J., & Gruber, H. (2008). The culture of learning from mistakes: How employees handle mistakes in everyday work. *International Journal of Educational Research*, 47, 223-231.
- Kam, J. (2004). Developing Strategy by Learning to Learn from Failure. *Journal of General Management*, 29(4), 58-76.
- Keith, N., & Frese, M. (2005). Self-Regulation in Error Management Training: Emotion Control and Metacognition as Mediators of Performance Effects. *Journal of Applied Psychology*, 90(4), 677-691.
- Kriegesmann, B., Kerka, F., & Kley, T. (2006). Fehlerkulturen und Innovationserfolge: Eine vergleichende empirische Analyse. *Zeitschrift für Personalforschung*, 20(2), 141-159.

- Levinthal, D. (1988). A survey of agency models of organizations. *Journal of Economic Behavior and Organization*, 9, 153-185.
- Miner, A. S., Kim, J.-Y., & Haunschild, P. (1999). Fruits of Failure: Organizational Failure and Population-Level Learning. *Advances in Strategic Management*, 16, 187-220.
- Nordstrom, C. R., Wendland, D., & Williams, K. B. (1998). "To Err is Human": An Examination of the Effectiveness of Error Management Training. *Journal of Business & Psychology*, 12(3), 269-282.
- Reason, J. T. (1990). *Human error*. New York: Cambridge University Press.
- Reason, J. T. (1997). *Managing the risks of organizational accidents*. Brookfield: Ashgate.
- Rybowiak, V., Garst, H., Frese, M., & Batinic, B. (1999). Error orientation questionnaire (EQQ): Reliability, validity, and different language equivalence. *Journal of Organizational Behavior*, 20(4), 527.
- Sellen, A. J. (1994). Detection of everyday errors. *Applied Psychology: An International Review*, 43(4), 475-498.
- Senders, J. W., & Moray, N. P. (1991). *Human Error: Cause, Prediction, and Reduction*. Hillsdale: Lawrence Erlbaum Associates.
- Shapiro, S. (2005). Agency Theory. *Annual Review of Sociology*, 31, 263-284.
- Sitkin, S. B. (1992). Learning through Failure: The Strategy of Small Losses. *Research in Organizational Behavior*, 14, 231-266.
- Sundaramurthy, C., & Lewis, M. (2003). Control and Collaboration: Paradoxes of Governance. *Academy of Management Review*, 28, 397-415.
- Tucker, A. L., & Edmondson, A. C. (2003). Why Hospitals Don't Learn from Failures: Organizational and Psychological Dynamics that Inhibit System Change. *California Management Review*, 45(2), 55-72.
- Van Dyck, C., Frese, M., Baer, M., & Sonnentag, S. (2005). Organizational Error Management Culture and Its Impact on Performance: A Two-Study Replication. *Journal of Applied Psychology*, 90(6), 1228-1240.
- Zapf, D., & Reason, J. T. (1994). Human errors and error handling. *Applied Psychology: An International Review*, 43, 427-432.
- Zhao, B., & Olivera, F. (2006). Error Reporting in Organizations. *Academy of Management Review*, 31(4), 1012-1030.