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The control imperative

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THE CONTROL IMPERATIVE

Studies on reorganization in the
public and private sectors

Fernando Nieto Morales

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university of
 groningen

The control imperative

Studies on reorganization in the public and private sectors

PhD thesis

to obtain the degree of doctor at the
 University of Groningen
 on the authority of the
 Rector Magnificus Prof. E. Sterken
 and in accordance with
 the decision by the College of Deans.

This thesis will be defended in public on

Thursday 26 February 2015 at 16.15 hours

by

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Acronyms

ASF	Auditoría Superior de la Federación (Congressional auditing bureau, Mexico)
CEO	Chief executive officer
CFA	Confirmatory factor analysis
CFI	Comparative fit index
FSQCA	Fuzzy set qualitative comparative analysis
HRM	Human resource management
KMO (test)	Kaiser-Meyer-Olkin test
M	Mean
MCP	Managerial control position
MIDESPC	Modelo Integral de Evaluación del Servicio Profesional de Carrera
MROS	Multiple respondents organizational survey
NAFTA	North American Free Trade Agreement
NPM	New Public Management
OECD	Organization for Economic Cooperation and Development
OD	Organizational development
PCA	Principal component analysis
RMSEA	Root mean square error of approximation
SD	Standard deviation
SEM	Structural equation modeling
SFP	Secretaría de la Función Pública (Ministry of the Public Service, Mexico)
SPC	Servicio Profesional de Carrera
SPCOP	Civil service operative program
SRMR	Standardized root mean residual

SROS	Single respondent organizational survey
TLI	Tucker-Lewis Index
UHRP	Unit of Human Resources Policy
USD	United States dollar
WLSMV	Weighted least squares estimator

Introduction

Margaret “Iron Lady” Thatcher’s famous slogan about there being “no alternative” to neoliberalism was not only the kind of cynical phrase you might expect from a determined Tory in the 1980s; it was also a kind of prophesy announcing deep social and economic changes. Globalization—as these changes came to be known—refers to at least five major trends in social and economic change, which for the last three decades have occupied an army of social scientists and public intellectuals: increasingly individualist forms of consumption, marketization and work; declining importance of national borders for economic activities; rising worldwide interconnection and faster means of communication; tougher fiscal competition between countries including efforts to deregulate, privatize and liberalize several economic sectors and industries; and the rise of an accelerated, more aggressive and unstable form of capitalism (Clegg 1990; Davis and Meyer 1998; Drucker 1993; Lipovetsky 2006; Mills, Blossfeld, Buchholz, Hofäcker, Bernardi and Hofmeister 2008; Milward and Provan 2000; Piketty 2014; Sandel 2012). The promise of globalization is that social and institutional change will eventually result in blurred national borders, global convergence and prosperity, as well as greater choice, freedom and higher living standards for individuals (Mills et al. 2008).

For policymakers and companies all around the world, globalization has resulted in opportunities and challenges. One particular challenge sets the general background for the book you have in front of you: *the crisis of traditional models of organi-*

zation. Changes brought forward in the course of recent decades have forced decision-makers to rethink the way companies, non-profits and government agencies are structured and managed. Traditional bureaucratic models of organization are deemed too rigid and expensive; too engrossed by hierarchical control and regulation to succeed in a globalized, fast-paced economy and society (Castells 1996; Johnson, Wood, Brewster and Brookes 2009). Commentators reckon that organizations, public or private, *need to be reorganized*: “We see a great opportunity for businesses, nonprofits and government agencies to leave behind the bureaucratic system of organization and become more productive and more ready for the future. These new organizations will rely on systems that develop and express the intelligence, judgment, collaborative abilities, and a wide-system responsibility of all their members” (Pinchot and Pinchot 1994, xiii; see also, Alvesson and Thompson 2006; Osborne and Gaebler 1993; Uchitelle 2006).

This book studies *reorganizations*, that is, intentional changes in the structure and internal policies of organizations in the wake of mounting globalization. It uses observations drawn from a multi-method study involving survey, archive and interview data from top managers and public officials of private companies and government agencies in both the Netherlands and Mexico to understand some of the mechanisms behind reorganizations; that is, the “cogs and wheels” (Elster 1989) that explain why and how this organizational change comes about.

Reorganizations are important events in an organization’s life course. They affect standard procedures and reshape organizational systems. Reorganizations affect how managers wield their authority, how employees behave and interact, and how services are delivered and goods produced. In addition, because in the last decades the frequency and pace of reorganizations has increased in capitalist societies (Wittek and Van Witelooostuijn 2012), studying and understanding the drivers and effects of reorganizations is becoming ever more important.

Everything must change...

Over a century ago, Max Weber contended that bureaucracy was the organizational manifestation par excellence of modern rationalism, and claimed that the process of bureaucratization was close to inescapable (1976/1905; 1968/1922). The ability to exert direct, depersonalized control over employees was, according to Weber, central to the success of bureaucracies. Traditional bureaucratic control is based on regulation, formal compensation and a hierarchy of authority (Coleman 1990). Organizational members are constantly monitored not only because they operate with resources that in principle are not theirs, but also because supervision is necessary to prevent intentional or unintentional deviations from organizational and managerial goals. Judging by how firms and government agencies are designed and managed to date, it is evident that the bureaucratic template, with its rules and hierarchies, continues to exert a powerful influence (Barzelay 1992; DiMaggio and Powell 1983).

Yet, bureaucracies “increasingly fail us” (Osborne and Gaebler 1993, 15; see also, Kamarck 2007). The characteristics of these organizations have become a liability in an increasingly globalized and dynamic economy, a “burden that should be left behind” (Merino 2013, 95) and that needs to be broken through (Barzelay 1992). “Reorganize or perish” seems to be the message behind much of the managerial and business literature out there. Companies are urged to flatten their structures and reengineer their processes so as to become more efficient, improve overall capacity, and shareholder value (Beer and Nohria 2000). For governmental organizations, neoliberal policies and the emergence of the New Public Management (NPM) movement triggered trajectories of reform aimed at making governments less rigid and cheaper to run (Christensen and Lægheid 2011; Pollitt and Bouckaert 2004). In either case, critics target, often implicitly,

INTRODUCTION

what they see as outdated and detrimental ideas about control and supervision. Bureaucratic control leads to rigid structures, overly formalized functions and procedures, and overruns. Bureaucratic organizations are prone to become inward-looking, more concerned with discipline than satisfying citizens and clients, and more troubled with running internal operations than saving money or improving overall efficiency (Barzelay 1992; Niskanen 2007).

This critique draws on two related “contingency” arguments. The first is that shifting conditions in the economy and society, such as increased local and global competition, more flexible labor markets, technological advancements and fiscal crisis (D’Aunno, Succi and Alexander 2000; Kamarck 2007) have induced a process of institutional drift that is forcing companies and governments to abandon traditional bureaucratic structures. Companies and governments are under rising pressure to be more effective, efficient and accountable. According to an increasingly popular viewpoint, only more flexible, responsive, networked, and flattened organizations will meet the challenge (Ancona et al. 1999; Sorge and Van Witteloostuijn 2004).

Second, increased dynamism and uncertainty are pushing organizations to invest less in fixed capital and instead, progressively rely more on labor’s “intelligent effort” (Lindenberg 2006). This erodes the basis of bureaucratic governance (Wittek and Van de Bunt 2004, 300). Rules and hierarchies are replaced with consensual forms of authority, responsible autonomy and teamwork. In particular, new forms of organizational governance decrease the prominence of traditional bureaucratic technologies (e.g., control by rules and standard operating procedures, task specialization, sequential workflows) and redefine the employment contract as a trust relationship between organization and employees. This fundamental change is supposed to empower employees and increase their intrinsic commitment, which is a reason for enthusiasm, understandably so. In the view of many, the demise of traditional bureaucracies opens possibilities for

emancipation of employees, greater flexibility, and workplace democratic governance (cf. e.g., Adler 1992; Folta 1998; or Pinchot and Pinchot 1994).

...For everything to remain the same

The emergence and diffusion of trends of change toward less bureaucratic and post-bureaucratic organizations has been well documented (Johnson, Wood, Brewster and Brookes 2009; Osterman 1994; Senge 1990; Smith 1996), albeit important pieces of evidence do not seem to support the argument that reorganizations are leading to less intense control. A paradox riddles organizational scientists in that there is evidence indicating that contemporary reorganizations often lead to tighter monitoring and increased pressures for workers to comply, and bring about novel nonintrusive disciplinary technology (Alvesson and Thompson 2006; Clegg 2009). Studies by Blim (2000), Brehony and Deem (2005), Torsteinsen (2012), and Vallas (2003), for example, show that evidence far from supports a systematic rupture with traditional models of organization. Some others, like Barker (1993) or Vallas (1999), cast doubt on whether reorganizations create conditions for labor empowerment and workplace democratic governance. These studies show that reorganizations maintain and, in some cases, strengthen the intensity of supervision and monitoring, and promote the internalization of managerial definitions of work (Deetz 1992; Wittek and Van de Bunt 2004). To use Barker's (1993, 408) phrasing; contrary to the promises of greater freedom and emancipation, contemporary reorganizations appear to be "tightening the iron cage".

We think there is a simple reason for this apparent contradiction. It is because *control remains an imperative for organizations*. By *control*, we mean the active alignment of organizational subunits' and employees' capabilities with organizational and managerial goals (Clegg 2009; Cyert and March 1963; Per-

row 1970; Wittek 2007). Public and private managers are coping with and adapting to changes brought forward by globalization. New management ideas and new supervision and monitoring techniques are devised to keep up with technological advancement. There are greater pressures for organizational productivity and accountability. Improvements in educational levels are giving rise to new ways to manage highly specialized and skilled workers. Frequent financial crises and austerity policies are forcing managers to keep a tighter grip on how valuable resources are spent and how employees' output is measured. In other words, social and economic changes highlight the crucial relation between planned organizational change (reorganizations) and the need to "provide the necessary incentives for organizational members to strive for the achievement of management's goals, but also [...] to provide the conditions and resources that are necessary for carrying out these tasks" (Wittek 2007, 85).

This book takes on the scientific problem of understanding the relation between control and reorganizations. In a way, it tells the story of reorganizations from a control perspective, given three decades of intensifying globalization. More specifically, we ask *to what extent and how contemporary reorganizations, including their implementation and outcomes, are powered and shaped by purposive efforts to gain, retain and increase control.*

Control is a central concept in the study of organizations, at least "since the time of Weber and remains perhaps the key issue that shapes and permeates our experiences of organizational life" (Barker 1993, 409). However, most analyses on control focus on specific aspects of this multifaceted phenomenon. For instance, rationalist approaches focus on issues of compliance and coordination, culturalist approaches on legitimacy of control, and structuralist approaches on the interplay between control and issues of cooperation (for a review, see Wittek 2007). We propose to embrace—rather than circumvent—the fact that control in organizations has multiple facets and manifestations. In this spirit and aiming to add to existing scholarship,

studies in this book acknowledge both formal (e.g., rules, resources) and informal (e.g., norms, trust) aspects related to control (Etzioni 1961; Wittek 2007), as well as temporal and structural manifestations of control (see below, pp.19-24). On this basis, we attempt to explicate the processes behind reorganization efforts in the public and private sectors, and to provide theoretical tools to this end.

Further, the studies in this book complement previous academic work, often based on the idea that reorganizations are driven mainly by ecological changes (i.e., changes in the environment of organizations), making organizational change a contingent or adaptive reaction (March 1981; Sorge and Van Witelooostuijn 2004). We think that to fully understand change in organizations, we need to reformulate extant contingency arguments in order to pay closer attention to internal organizational phenomena, and how these affect the possibilities and outcomes of reorganizations. The answer we hope to offer is thus based on the idea that the need to gain and keep control influences the motives and implementation process of reorganizations, and that reorganizations in turn affect the nature and intensity of control. When managers and government officials decide to embark on and implement reorganizations, they commit, even tacitly, to efforts that presumably improve organizations' capacity to reach their goals, which implies the capacity to exert or attain control. Something similar can be said of the process of change itself. Implementing changes entails that organizations and managers are able to somehow direct multiple players, actions and resources. Successful reorganization depends on being able to enforce and control implementation of changes (Hardy 1996). As we shall see, the relation between planned organizational change (reorganizations) and control is composite, reciprocal and pervasive across different phases of the reorganization process. Control is a crucial intervening factor in the motivation, implementation process and outcome of reorganizations.

Cases and data sources

We make use of empirical data from several private, public and government organizations in two different countries. In both countries, the effects of global social and economic changes are remarkably evident. More important, however, given our interest in general mechanisms underlying the relation between reorganizations and control, the cases provide us with the opportunity to study multiple facets of control and their relation to reorganizations, in different contexts. Data from Dutch private organizations help us to understand some managerial processes behind reorganization in companies. Also, data from Dutch private and public establishments is useful to compare cross-sector variations. Information on the implementation of a reform spanning a wide variety of governmental organizations of the Mexican federal government is useful to study implementation processes of public sector reforms.¹ By analyzing these different cases, our study broadens the scope of previous research, which is often focused only on a single organization or a number of organizations in a particular sector, and is largely devoted to Western (developed) cases.

On the one hand, the Netherlands is one of wealthiest, long-standing democracies, with very high living standards, and one of the most technologically advanced and competitive economies in the world (see, e.g., OECD's Better Life Index, available at www.oecdbetterlifeindex.org). The Dutch economy plays also an important role in the European economic integration process, and it is often portrayed as an example of successful economic governance (Kraan 2005). Along with other developed countries inspired by neoliberal economics and the NPM movement, the Dutch initiated extensive programs of reform in the 1980s and 1990s, which led to privatization, deregulation and liberalization

¹ Details of the data and data collection procedures are presented and discussed in subsequent chapters.

of the economy and the public sector (Pollitt et al. 2001; Ter Borgt and Helden 2000). The Netherlands showed good economic performance throughout the 1990s, well above European average. However, and like other developed countries, the Netherlands suffered in the global economic deceleration of the 2000s and the subsequent European Debt Crisis, when Dutch industrial output fell considerably (Evans-Pritchard 2008). In Chapters 1, 2 and 5, we use survey data from a single respondent organizational panel of Dutch public and private managers and establishments collected in 2003 and 2006.

Mexico, on the other hand, is a newly industrialized country—as are Brazil, Indonesia, China, India, and others. It has one of the largest economies in the world, and is strongly linked to the United States and Canada through the North American Free Trade Agreement (NAFTA). Like other newly industrialized countries, Mexico has a high degree of income inequality, corruption, and great geographic and demographic disparities in development and living standards (Acemoglu and Robinson 2012). Further, for most of its history, Mexico experienced limited democratic development. Throughout most of the twentieth century, a single political party and a patronage-based administration were dominant (Arellano Gault 1999). Only by the end of the 1980s, the political system began experiencing increased electoral competition and democratization. This coincided with major economic reforms that deregulated and privatized several key industries and significantly reduced the size of the public sector (Haber, Klein, Maurer and Middlebrook 2008). After 2000, when the opposition won the presidential election for the first time, a new round of administrative and political reform was initiated. Some of these reorganizations were intended to modernize the public administration, and increase its efficiency and transparency (Cejudo 2007). One such reform—the 2003 Civil Service Reform Act, or, in Spanish, “Servicio Profesional de Carrera”—provides us with a very useful example of how governments attempt to reorganize their agencies, not only in response to global

pressures for modernization and accountability, but also because of the need to regain and maintain control (Cejudo 2008; Pardo 2005). In Chapters 3 and 4, we use data from a multiple respondent organizational survey in 55 organizations of the Mexican federal government collected in 2012, as well as in-depth interview data from high-ranking officials in charge of enforcing and implementing this reform.

The cases and data used throughout the book present an opportunity to examine reorganizations in different institutional and sectorial settings. To be sure, using data from public and private organizations in two countries as different as Mexico and the Netherlands has its limitations, as we will discuss duly. Nevertheless, this research design does provide a rich supply of quantitative and qualitative data. This is an asset because explicating the—often-complex—relation between control and reorganizations calls for multifaceted data. This enables a more fertile analysis of the evidence, and offers the possibility to appraise theoretical mechanisms and hypotheses with multiple methods, including statistical analyses, process-tracing and qualitative comparison. Accordingly, our study uses a multi-method approach that combines quantitative, qualitative and mixed methods (see Mahoney and Goertz 2006).

Control and reorganizations: an approximation

At large, the studies presented in this book have at least two important goals. First, each chapter is intended to help us understand whether and how efforts to gain and keep control affect and are influenced by trajectories of planned organizational change in companies or governments. The second goal is to provide insight into empirical puzzles, where available evidence tells us that something we know is wrong or where conventional wisdom about reorganizations (or control) is not based on theory (cf. Elster 1998). Our study proceeds sequentially through the

reorganization process. To order the exposition, we focus on three issues familiar to the literature on planned organizational change and change management (Figure 0.1): motives behind reorganizations, implementation problems, and the aftermath of reorganizations.

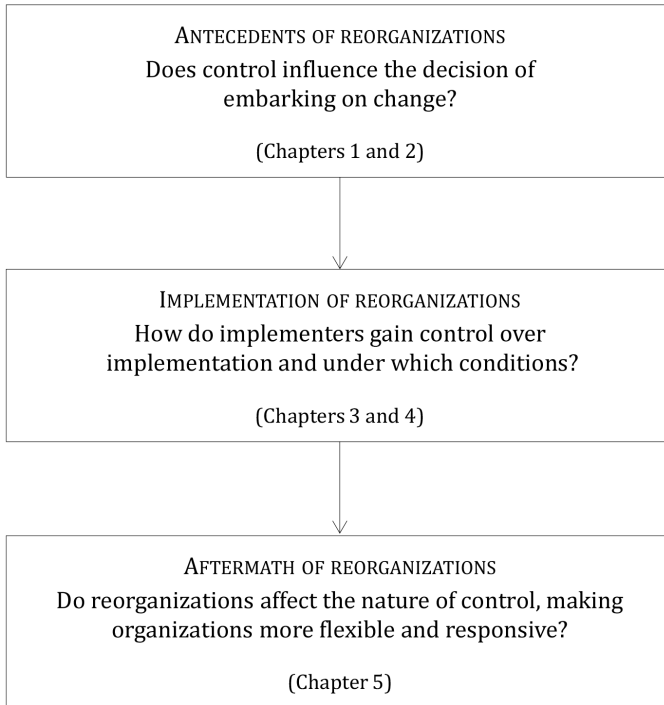


FIGURE 0.1 — *The relation between control and reorganizations: an approximation*

Antecedents

The first issue deals with the motives behind reorganizations. We focus on the role played by control in the decision of whether or not to embark on changes. Popular “flexibilization” narratives

emphasize fast-paced adjustment to changing environmental conditions and movements toward unbridled strategic flexibility (Sorge and Van Witteloostuijn 2004). By contrast, internal organizational factors, such as managerial control, play a limited role in extant explanations of planned organizational change. Is managerial control or the lack thereof an antecedent of reorganization? If it is, we should discover that variations of managerial control relate to different properties of reorganization, for example, the frequency or type of change. In Chapter 1, we ask *why is it that some managers readily embark on reorganizations, whereas others avoid them*. This chapter advances a “managerial gattopardism” thesis, which claims that managers are likely to avoid reorganizations, unless these are deemed useful to improve their control position. We hypothesize that the weaker a managers’ control position, the more likely the occurrence of reorganizations. In order to assess the empirical validity of this claim, we use longitudinal survey data from top managers in the Netherlands collected in 2003 and 2006, and structural equation modeling techniques.

Chapter 2 presents a study of the role of loss of control due to conflict as antecedent of different types of reorganizations. In particular, the chapter examines the *relationship between structural organizational conflict and the likelihood and type of reorganizations*. Using a distinction between “type E” (structural adjustments) and “type O” (changes aimed at increasing organizational capacity) reorganization, we theorize that distinct forms of structural differentiation relate to different types of structural conflict, and that these in turn relate to different types of reorganization. We hypothesize that vertical conflict (i.e., conflict between superiors and subordinates) relates to type E reorganization, and by contrast, horizontal conflict (conflicts among organizational subunits laterally placed or within peer-to-peer processes) relates more closely to type O reorganizations. We put these ideas to the test with survey data from Dutch managers in private establishments. We use logistic models that allow us for

estimating the likelihood of (different types of) reorganization, given different types of conflict.

Implementation

The second issue deals with problems of implementation. The central question is whether, and under what conditions, implementers gain control over implementation. If control plays a role in change implementation, then we could expect to find that qualitative variations in control lead to qualitatively different results, or that implementers operating in organizations with different characteristics differ with regard to the way they achieve control over implementation. We first look at the process of creating and securing *enforcement capacity*, that is, *attaining and sustaining control in order to implement reorganizations*. In Chapter 3, we pose that building enforcement capacity is crucial for the success of public management reforms. However, this aspect of reforms does not receive much attention in extant research. We analyze the process of building enforcement capacity for the case of the Mexican 2003 Civil Service Reform Act. Although this reorganization experienced several complications (e.g., limited support, resources and credibility), important goals and partial control over implementation were attained. We study how officials achieved this through the management of combinations of different types of control strategies. We pay special attention to the use of “soft” (normative and procedural) strategies that enable implementers to attain coordination and compliance. This chapter also explores how the process of building up enforcement capacity can affect the goals of reorganization, potentially deviating from policymakers’ intent. In order to study and trace these processes, we use data from interviews with high-level officials of the Mexican government. We use stream analysis (Porrás 1987) to reconstruct critical stories, which in turn permitted us to identify strategies and patterns of enforcement and implementation.

Next, we turn to the study of the conditions under which reorganizations are successfully implemented. In particular, Chapter 4 addresses the issue of *implementation of reorganizations in organizations with different characteristics*, including different resource endowments. A traditional technocratic approach on implementation stresses the need for committing large resource endowments and setting up formal controls in order to successfully implement reorganization. Building on an institutional framework, we argue that there are alternative pathways to compliant implementation for organizations with limited resource endowments. Particularly, we study the role played by limited resources in combination with (oppositional) norms and interpersonal trust in enabling successful reorganization in governmental organizations. In order to test our ideas, we use panel data from 55 ministries and government agencies exposed to the same reform (the Mexican 2003 Civil Service Reform). Using fuzzy set qualitative comparative analysis (FSQCA), we are able to systematically compare organizations and determine different implementation “recipes” leading to compliant implementation.

Aftermath

The third issue deals with the aftermath of reorganizations. Control can also be influenced by change, in the sense that reorganizations may affect the quality of control systems. If they do, we could discover, for example, that efforts of planned organizational change decrease previous differences in control across private and public organizations. In Chapter 5, we examine claims made by proponents of the NPM movement that expect precisely that *public organizations will become more flexible and adaptive after administrative reorganizations, effectively showing similar patterns of change to the private sector*. We test this “convergence argument” and analyze whether public organizations have changed their organizational structures and internal policies in

relation to competitive, regulatory and autonomy pressures, similarly to private organizations. We use survey data from Dutch public and private organizations and moderation analyses to determine sectorial differences and similarities after three decades of NPM reform in the Netherlands.

Chapter 6 concludes by summarizing and discussing the most important results, and seeks to answer the main question above: whether contemporary reorganizations are shaped by purposive efforts to gain or maintain control. It also offers an outline of avenues for future research, and summarizes some implications for theory and practice.