

Research Article

ORGANIZATIONAL CONTROL SYSTEM BASED ON THEORY Z

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Received 07th February 2024; Accepted 08th March 2024; Published online 25th April 2024

ABSTRACT

The significance of human resource management and organizational control systems in the context of industrial evolution has garnered increasing scrutiny over time. Within human resource management, theories such as Theory Z, often associated with "Japanese Management," were introduced by Dr. William Ouchi during the Asian economic resurgence in the 1980s. Theory Z primarily aims to foster employee loyalty by ensuring lifelong job security and emphasizing employee welfare, both within and beyond the workplace. Its seven main characteristics encompass long-term employment, consensual organizational decision-making, individual responsibility, promotion and evaluation of organizational members, implicit and informal control alongside explicit formal standards, well-defined career paths, and holistic concern for employees, including their families.

Keywords: Theory Z, Organizational Management, Human Resources.

INTRODUCTION

The importance of human resource management and organizational control systems in the context of industrial evolution has faced increasing scrutiny over time. Recognizing the multifaceted challenges organizations encounter in achieving and sustaining optimal productivity levels, there's a growing emphasis on effective strategies in human resource management and organizational control. These strategies, informed by the development of organizational theory and understanding human behavior, extend beyond structural and procedural elements to encompass psychological and social factors influencing individual and group behavior in decision-making processes. Applied organizational control systems seek to create frameworks that enable organizations to adapt to dynamic environmental shifts while balancing operational efficiency and employee well-being. Moreover, ongoing research and conceptual advancements contribute to a deeper comprehension of the fundamental principles governing interactions among individuals, groups, and organizational structures. Consequently, organizational behavior studies aim not only to describe and understand human behavior within organizational contexts but also to forecast future behavioral trends and design suitable control and development strategies (Qin *et al.*, 2023).

In the realm of human resource management, theories such as Theory X, Theory Y, Theory Z, and Theory A, pioneered by Douglas McGregor in the 1960s, have proven to be invaluable cornerstones for developing motivation-oriented strategies and effective human resource management practices. Theory X portrays a perspective skeptical of an individual's intrinsic motivation, whereas Theory Y underscores the positive potential of humans to actively contribute to organizational goals through internal motivation and assigned responsibilities. In today's dynamic organizational landscape, a profound grasp of these theories bolsters the strategic framework for designing sustainable and achievement-oriented human resource management policies and practices (Bass, 2015).

Theory Z, often referred to as the "Japanese Management" style, was introduced by Dr. William Ouchi during the Asian economic revival in the 1980s. Its primary focus is on enhancing employee loyalty to the company by offering lifelong job security and prioritizing employee welfare, both within and outside the workplace. These three theories, including Theory Z, are grounded in research conducted in various production-related organizations throughout the 20th century. However, in the 21st century, as business models evolve, production processes become more automated, technology advances, and shifts occur in the business environment and societal perspectives, organizations undergo a transformation into global entities. This transformation has spurred the emergence of a new theory in organizational behavior known as Theory A (Accountability Theory). This theory represents the latest contribution from Dr. Aithal P. S. and Dr. Suresh Kumar (Aithal and Kumar, 2016). This paper will delve into organizational control systems based on Theory Z, exploring their implications and applications in contemporary organizational contexts.

DEVELOPMENT OF MANAGEMENT CONTROL SYSTEM THEORY

In 1960, Douglas McGregor introduced two conflicting assumptions about human nature in the work environment, which became the basis for Theory X and Theory Y. Theory X defines the view that humans tend to be lazy and reluctant to work, thus requiring close supervision to achieve desired results. In contrast, Theory Y proposes that humans have an intrinsic potential for creativity and motivation at work, thus encouraging the concept of participatory management and providing space for employees to contribute actively to achieving organizational goals (Goldman). Although the terms "X" and "Y" have become standard in referring to McGregor's theories, it is important to note that there are variations in the alternative names used for each of these management theories, and sometimes these terms can be misinterpreted. For example, some authors refer to Theory X as "Autocratic Style", while Theory Y is referred to as "Participatory Style". On the other hand, there are those who refer to Theory X and Theory Y as "hard" and "soft" management, although the use of these terms needs careful attention because there can be improper

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meanings (Schermerhorn Jr., Bachrach and Wright, 2020). With the evolution of management concepts, the advent of Theory Z, popularized by Dr. William Ouchi in the 1980s, introduced a new dimension to understanding organizational control systems. Theory Z underscores the significance of fostering employee loyalty through lifetime job security and prioritizing employee well-being, both within and beyond the workplace. Consequently, delving deeper into Theory Z offers a comprehensive outlook on the evolution of organizational control systems and highlights the significant contributions of various management theories in attaining sustainable and effective organizational objectives (Aithal and Kumar, 2016).

As previously discussed, Theory X is founded on the premise that the majority of individuals lack intrinsic motivation for work and necessitate direct pressure and control to perform effectively. Consequently, the work environment is perceived to require strict management, with the primary motivation for employees being the threat of disciplinary action. Moreover, there's an assumption that financial rewards serve as the sole effective incentive for encouraging employees to surpass expected standards. From a managerial standpoint, the Theory X approach is commonly employed by autocratic managers who exert complete authority over decision-making. They tend to make decisions autonomously and issue directives to subordinates, confident that their orders will be carried out. Such managers are often perceived as authoritative figures due to the extensive control they wield, effectively acting as "authorities" within the work environment. Autocratic managers typically exhibit a high task orientation, prioritizing the completion of tasks while paying less heed to workers' responses or attitudes toward their decisions. Nevertheless, an increasing number of organizations are moving toward a more collaborative management approach, wherein authority and decision-making are shared among group members. This trend signifies a departure from autocratic management styles toward a more inclusive and participatory leadership model. Thus, comprehending Theory X not only sheds light on traditional management approaches but also opens avenues for reflection and exploration of leadership styles that are more adaptable and responsive to evolving organizational needs and dynamics (Aithal and Kumar, 2016).

The concept of Theory Y presents a more optimistic outlook on the relationship between managers and workers within the work environment. This theory is grounded in the belief that individuals possess significant creative potential and intrinsic motivation to excel in their work. According to Theory Y, workers are inclined towards assuming greater responsibility and aspire to be actively involved in the decision-making process. They thrive in an environment that fosters creativity and offers opportunities for personal participation in organizational planning. Further examination of the characteristics of Theory Y workers underscores their prevalence in the modern workplace. Evidence indicates that traits such as intelligence, creativity, and imagination are widely distributed among workers. These individuals not only embrace assigned responsibilities but also actively seek avenues to expand their authority and enhance their contributions to the organization. This perspective is further supported by insights from other researchers who explore participatory leadership styles, which form the foundation of Theory Y. Participatory leaders are characterized by their inclination to involve group members in decision-making processes. Within this framework, there are distinct types of leaders: democratic leaders who facilitate group participation in decision-making, and consensual leaders who foster group discussion and consensus-building in decision-making. Therefore, an understanding of Theory Y not only paints a more optimistic picture of workplace dynamics but also highlights a progressive trend in leadership styles that are more inclusive and

attuned to the aspirations and potential of individuals within organizations (Barkema *et al.*, 2015).

William Ouchi introduced a groundbreaking organizational control systems theory known as "Theory Z," which redefines the relationship between managers and workers. Often referred to as the "Japanese" management style, Theory Z advocates for a management approach that blends elements of strict American management (Theory A) with the collaborative ethos of Japanese management (Theory J). This theory advocates for the establishment of an organizational culture rooted in Japanese cultural principles, wherein employees are encouraged to actively participate and possess the versatility to handle diverse tasks. Key concepts emphasized in Theory Z include job rotation, comprehensive skill development, striking a balance between specialization and generalization, and continuous training for employees (Luthans). By incorporating these principles, Theory Z presents a management model that values employee participation and holistic skill enhancement, drawing from the strengths of two distinct management cultures. Consequently, Theory Z lays a solid foundation for cultivating an organizational culture that is adaptable and responsive to change, while fostering active employee engagement in achieving company objectives (Setiawan, Kurniawan, and Komara, 2021).

Similar to McGregor's theory, Ouchi's Theory Z is built upon several assumptions regarding worker characteristics. These assumptions form the foundation of the theory and include the belief that workers inherently desire cooperative and close working relationships with both colleagues and superiors. Moreover, workers within the Theory Z framework are perceived to have a strong need for support from the company they work for, valuing a work environment that acknowledges family values, cultural traditions, and social institutions as equally important as the job itself. Additionally, workers in this context are believed to possess high levels of order, discipline, and moral responsibility for their work, fostering strong connections with their co-workers. From a Theory Z perspective, workers are thought to exhibit their best performance when management consistently provides support and cares for their welfare (Massie and Douglas). By integrating these elements, Theory Z offers a comprehensive understanding of workers' needs and expectations in the workplace, underscoring the significance of cooperation and mutual support between management and employees in achieving shared objectives (Setiawan, Kurniawan, and Komara, 2021).

BACKGROUND TO THE ADVENT OF THEORY Z

Theory Z emerged in response to escalating corporate uncertainty spurred by a series of profound social upheavals. The tranquility of the post-war era in the 1950s was disrupted by widespread social unrest during the 1960s, characterized by marginalized groups such as African Americans and women advocating for recognition and equality in a society largely dominated by the white male perspective. Iconic events, such as the 1960 sit-in protest at a Woolworth's lunch counter by black students in Nashville, the publication of Betty Friedan's "The Feminine Mystique" in 1963, and the Vietnam War protest riots during the 1968 Democratic Convention, epitomized the era's turbulence. Tragic events like the assassinations of Martin Luther King Jr. and Robert F. Kennedy in the same year further underscored the tumultuous atmosphere. These societal transformations persisted into the 1970s, coinciding with economic challenges faced by American companies. The conventional paradigm depicting the ideal company as large, hierarchical, and driven by engineering and economic principles began to deteriorate over time (Daft, 2004).

Although stability, functional specialization, and an assembly line mentality had greatly benefited American companies during the post-World War II recovery period in Europe and Japan, they became increasingly obsolete in the face of a dynamically evolving landscape. The oil embargo of 1973 exposed the vulnerabilities of American companies, which were less adaptable to global dynamics compared to their Japanese and European counterparts. The recurrence of the oil embargo in 1979 further underscored the inadequacies of the United States. Management structures associated with heavy industry struggled to transition to meet the demands of a market characterized by service, information, rapid change, and international pressures. America's grim economic outlook, marked by stagnant productivity, inflation, high unemployment, and soaring interest rates, emphasized the necessity of adopting a new management approach capable of reconciling traditional American values with the realities of a rapidly growing and changing global economy. It is within this context that Theory Z emerges as a paradigm shift, offering novel solutions for companies grappling with the challenges of an ever-changing landscape (Daft, 2004).

KEY CHARACTERISTICS OF THEORY Z MODELS

Theory Z emerged with intriguing promise, offering profound insights into how American businesses could confront growing competition from Japan. Numerous reports have underscored that the productivity dilemma in the business world is not solely dependent on technical and economic factors but is also influenced by social organization and managerial attitudes. Theory Z sheds light on Japan's success by linking it to a social structure that esteems individuals, quality, and productivity. An anecdote from Theory Z vividly illustrates this notion: A group of engineers and managers from General Motors' Buick Division visited a dealer in Tokyo and initially mistook the operation for a large repair shop. However, they later discovered it was a reassembly facility where cars were disassembled and reassembled to Japanese quality standards, showcasing Japan's dedication to quality. Ouchi, a key proponent of Theory Z, contends that social cohesion within a company directly impacts its economic performance. For instance, General Motors' Buick Division, upon adopting Japanese management principles, swiftly ascended to become the top-performing plant in the company.

Theory Z underscores the importance of involving employees as both thinkers and doers, managing them based on values, beliefs, and close relationships. It offers recommendations for American companies to rejuvenate themselves, restore vitality, and enhance productivity within their organizations (Daft, 2004). Several characteristics of organizational control systems based on Theory Z are outlined in Table 1.

Table 1. Seven Key Characteristics of The Z Theory (Daft, 2004).

Characteristics of The Z Theory
Long-term employment
Consensual decision making
Individual responsibility
Slow promotion and evaluation
Implicit, informal control with explicit, formalized measures
Specialized career path
Holistic concern

The seven characteristics outlined in Table 1 form the fundamental framework that distinguishes Theory Z from other theories. The first characteristic pertains to long-term employment, signifying the typical longevity of work within this model. Opting for extended tenure in a

job, which entails the average duration employees remain with a company, yields numerous advantages for organizations. This stands in contrast to the prevalent American model characterized by frequent job changes. Committing to long-term employment not only benefits individuals but also the organizations they serve. It facilitates the development of stronger bonds among employees, fostering better understanding of each other's objectives and cultivating a sense of camaraderie among colleagues. Additionally, long-term loyalty to the organization enhances commitment to the company's vision and mission, motivating employees to make enduring and substantial contributions toward shared goals. This concept is not merely theoretical but is corroborated by practical experiences, as articulated by Akio Morita, CEO of Sony, in 1981. Morita observed that Sony employees exhibited profound concern for the company's future, grounded in their belief in long-term tenure with the company, extending beyond twenty years (Islam and Kalumuthu, 2020).

The second characteristic of Theory Z pertains to consensual decision-making. Traditionally, American companies have favored centralized decision-making, where managers hold primary responsibility for decision-making, while workers are typically tasked with implementing these decisions. However, there has been a notable shift towards consensus decision-making as a strategy to engage employees in collaborative efforts aimed at enhancing productivity and quality. This approach differs from the practice in Japanese companies, where the decision-making process tends to be slower due to the existence of forums facilitating discussion and providing employees with the opportunity to challenge managerial decisions. Despite the consultation process, consensus-building through dialogue and idea exchange enables faster implementation, resulting in quicker overall decision-making compared to American companies. For instance, the principles of Theory Z were adopted at the Buick factory in the United States, where employees are actively involved in decision-making. The factory, with 400 employees organized into work teams, empowers them to solve their own problems. Moreover, employees are encouraged to contribute to decision-making processes throughout the factory, indicating a departure from traditional hierarchical structures towards a more participatory model (Islam and Kalumuthu, 2020).

The third characteristic of Theory Z focuses on the presence of individual responsibility. The concept of responsibility holds significant importance as a foundational principle in determining accountability levels and the distribution of rewards within a meritocratic system. This perspective is deeply intertwined with the underlying culture of the United States, which places a high value on individual responsibility. In contrast, Japanese corporate culture often emphasizes collective accountability within units, as decision-making frequently involves group consensus. However, such a collective approach may not always directly translate to the context of American companies, where there is a strong emphasis on clarity regarding individual roles and levels of accountability. The Japanese motto, "For you to succeed, every worker must succeed," may not entirely align with the American worker paradigm, prompting Ouchi to advocate for the retention of the concept of individual responsibility in American companies. Despite significant cultural differences, both approaches share the common goal of fostering accountability, albeit through different frameworks (Islam and Kalumuthu, 2020).

The fourth characteristic of Theory Z focuses on the promotion and evaluation of organizational members. The significance of a deliberate approach to evaluation and promotion in Japanese companies becomes apparent when considering its deeper implications. While the notion of swift appraisal and promotion may appear appealing, its ramifications are substantial. For instance, in companies like Sony, salary reassessments occur only once every

three years, fostering a culture of long-term thinking among employees. This practice diminishes the individual's inclination to prioritize short-term gains, as there is no direct incentive for rapid promotion. Although promotions in Japanese companies may happen less frequently, perhaps once every ten years, the gradual promotion process does not entail individuals being left behind. On the contrary, it facilitates the cultivation of a steadfast perspective on long-term business operations, with employees concentrating on accomplishing crucial tasks within the company. This intentional approach to evaluation and promotion not only engenders a sense of stability but also nurtures commitment among employees, ultimately fostering a shared dedication to sustained productivity and overall organizational success (Daft, 2004).

The fifth characteristic of Theory Z revolves around the implicit and informal control of organizational members alongside explicit formal standards. This distinction reflects variations in approaches to utilizing social and quantitative measures in evaluation and promotion processes. In the American workplace, evaluation practices typically lean towards the use of numerical metrics, demonstrating a preference for rationality and objectivity over subjective judgments. While quantitative analysis is often perceived as objective, it may overlook the value of wisdom derived from experience. However, Ouchi's research on a department store unveiled shortcomings in approaches solely reliant on quantitative metrics. Ouchi discovered that stores overly reliant on quantitative metrics in evaluations often experienced performance declines. Employees tended to prioritize tasks with immediate financial incentives under such rigid evaluation approaches. Conversely, stores where managers employed more holistic assessments, drawing on individual experiences, exhibited higher performance levels. This was attributed to employees' engagement in a broader array of tasks crucial to the overall success of the store. Thus, an inclusive and experience-based approach proves more optimal in the context of evaluation and promotion in the workplace (Daft, 2004).

The sixth characteristic of Theory Z concerns the existence of a good career path, which serves as a cornerstone for ensuring the success and sustainability of an organization. A clear career path offers essential motivation and goals for employees, driving them to enhance their performance and contribute optimally. Moreover, it instills a sense of security and stability among employees, as they perceive opportunities for development and advancement based on their achievements and competencies. This sense of assurance fosters long-term commitment and engagement with the company, thereby reducing turnover rates and associated recruiting and training costs. Furthermore, well-defined career paths enable organizations to identify and nurture internal talent. Through strategic planning and provision of appropriate career development opportunities, companies can harness the full potential of existing employees while minimizing reliance on external recruitment. Finally, a robust career path enhances a company's reputation as an attractive and competitive employer. When employees feel supported and acknowledged in their career progression, the company earns recognition as an organization that prioritizes employee needs and aspirations. Consequently, this enhances the company's ability to attract and retain top talent in the industry, thereby facilitating long-term success and growth. Thus, a good career path not only benefits individual employees but also plays a pivotal role in driving the long-term success and prosperity of the organization (Daft, 2004).

The final characteristic underscores the organization's holistic concern for its members, extending to their families. Holistic care embodies a comprehensive perspective in which employees are viewed in their entirety, with particular emphasis on supervisors' genuine concern for their subordinates. Japanese companies have

garnered acclaim for their holistic approach, demonstrating sincere interest in every facet of employees' lives. When this practice was introduced in the United States, it resulted in heightened employee satisfaction. In Theory Z companies, the integration of couple, family, and community activities as integral components further reinforces this holistic approach. Employees who feel supported and valued in their work environment tend to achieve greater success in their personal lives, thus making positive contributions to their families and communities. This underscores the importance of cultivating a holistic and supportive work culture that transcends professional responsibilities to encompass employee well-being across all aspects of their lives (Daft, 2004).

COMPARATIVE ANALYSIS WITH OTHER TYPES OF MODELS

The basic differences between the Z type model and other models can be seen in table 2 as follows.

Table 2. Comparative Analysis of Theory X, Y, and Z (Aithal and Kumar, 2016).

Management Concept	Theory X and Y	Theory Z
Motivation	Tend to categorize people into one type or another: unwilling or unmotivated to work, or self-motivated towards work. Threats and disciplinary action are thought to be used more effectively in these situations, although monetary rewards can also be a primary motivator to get Theory X workers to earn more.	Believe that people are inherently motivated to not only do their jobs, but are also loyal to the company, and want to make the company successful.
Leadership	Theory X leaders will be more authoritarian, while Theory Y leaders will be more participative. However, in both cases it appears that managers still retain a great deal of control	Theory Z managers must have great confidence that their workers can make the right decisions. Therefore, this type of leader is more likely to act as a "coach," and let workers make most of the decisions
Power and authority	As noted above, managers, in both cases, appear to hold most of the power and authority. In the case of Theory Y, managers will accept suggestions from workers, but will still have the power to implement those decisions.	A manager's ability to exercise power and authority stems from workers' trust in management to take care of them, and allow them to do their jobs. Workers have a lot of input and weight in the decision-making process.
Conflict	This type of manager may be more likely to apply a "Power" based style of conflict resolution, especially in Theory X workers. Theory Y workers may be given the opportunity to apply "Negotiation" strategies to resolve their own differences.	Conflict in the Theory Z arena will involve a lot of discussion, collaboration, and negotiation. Workers will be the ones who resolve conflicts, while managers will play more of a "third party arbitrator" role.
Performance appraisal	Assessments occur regularly. Promotions also occur regularly.	Theory Z emphasizes more frequent performance appraisals, but slower promotions.

CONCLUSION

The workplace operates on a foundation of assumptions derived from the observations of workers and their interactions with management. The tasks at hand and the diverse makeup of employees within an organization significantly influence the leadership styles adopted by managers. While Theory X suggests that workers are inherently lazy and unmotivated, thus supporting an authoritarian approach, Theory Y presents an alternative viewpoint by highlighting the potential for workers to be participatory and creative. Moreover, the introduction of Theory Z by Ouchi extends beyond assumptions solely concerning worker behavior and also addresses the role of managers. According to Theory Z, managers should provide support and trust to employees, fostering their active involvement in company decision-making processes. The seven key characteristics of Theory Z include long-term employment, consensual organizational decision-making, individual responsibility, promotion and evaluation of organizational members, implicit and informal control alongside explicit formal standards, good career paths, and holistic care, including family considerations. By embracing Theory Z principles, organizations can cultivate environments where employees feel valued, trusted, and empowered, ultimately leading to enhanced productivity, employee satisfaction, and overall organizational success. Thus, understanding and implementing these theories are essential for creating workplaces that thrive in today's dynamic and ever-evolving business landscape.

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