



THE LONDON SCHOOL  
OF ECONOMICS AND  
POLITICAL SCIENCE ■

Department of Accounting

## **Implicit Control Mechanisms and Organizational Learning**

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*Venue:* ARWR

### **Abstract**

This study investigates the effects of a common but understudied control mechanism - the ex-post monitoring of decision-rights - on the behavior and learning of lower-level employees. We exploit a field-research setting in which employees' use of decision rights can be directly measured and traced to performance outcomes. We document implicit incentives in the form of sharp increases in employee exits linked to "excessive" use of decision-rights and find that these implicit incentives are strongest for employees in business units with "tight" monitoring of decision-rights. We document two broad behavioral effects for employees that are consistent with these implicit incentives in tighter monitoring environments: (1) they are less likely to use discretion in exercising decision-rights; (2) they are less likely to adjust for local information, including historical performance data, in their decision making. Finally, we document strong learning effects among lower level employees in our setting. However, these learning effects are concentrated among employees in "loosely monitored" business units and are entirely absent in "tightly monitored" business units. The results are consistent with an experimentation hypothesis in which tight monitoring of decision-rights leads to fewer deviations from prescribed decision rules and less learning.