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# Following the chain of command? How managers balance benefits and risks in granting autonomy to employees

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## ABSTRACT

We investigate how managers trade off the benefits of delegating authority to their employees with the risk of loss of control. Organizational economics theory identifies specific knowledge of subordinates and monitoring possibilities for the manager as determinants of delegation. Social learning theory predicts that when unit managers are themselves granted more authority, they will pass this on to their employees. This cascading of authority reduces the fear of loss of control associated with delegation. Using a survey among 215 unit managers in professional services firms, we find that managers delegate more authority to employees in their unit when those employees have more specific knowledge, when there are more exceptions in employee tasks, and when monitoring costs are lower. We also find support for the cascading effect: decentralization to the manager is positively related to autonomy granted to employees, while it moderates the effects of specific knowledge and monitoring costs.

## 1. Introduction

Employee autonomy – the freedom employees have in carrying out their tasks (Morgeson & Humphrey, 2006) – is positively related to a multitude of desirable outcomes at the employee level. In a meta-review, Humphrey et al. (2007) find that higher levels of autonomy are related to higher performance, job satisfaction and organizational commitment, and to lower role ambiguity, stress, and burnout. However, providing employees with autonomy creates a risk for the organization because employees may not necessarily act in the organization's interest when they are given more autonomy. While organizations use control systems to guide and motivate employees to put in effort towards achieving the organization's goals (Cardinal et al., 2017), increasing autonomy reduces the amount of control over employee behaviour (Langfred & Rockmann, 2016). Thus, granting autonomy to employees is not without downsides, and organizations have to balance the increase in risk with the potential benefits (Dobrajska et al., 2015; Turner et al., 2021).

The purpose of this paper is to increase our understanding of the trade-off between the benefits of granting autonomy and the loss of control that managers face in delegating authority to their employees. Previous literature has investigated how employee-level characteristics such as perceived employee capabilities and the quality of the

employee-supervisor relationship affect this trade-off (Yukl & Fu, 1999; Feenstra et al., 2020). There is also a body of literature that investigates how firm level characteristics such as the use of pay for performance affects the delegation decision (Hong et al., 2019). We add to this literature by investigating the structural characteristics that managers deal with in their daily job: the nature of the tasks in the unit, the ease of monitoring employee activities, and the authority which managers themselves receive from their superiors in managing their unit.

First, we build on the organizational economics literature (Milgrom & Roberts, 1992) to identify task- and unit-level characteristics affecting the delegation decision. We investigate what the impact is of the specific knowledge that employees have relative to their manager, as well as the extent to which exceptions occur. These characteristics make transferring knowledge from employees to supervisors more costly, and thus increase the benefits of delegation. Furthermore, when it is more difficult to monitor employee activities within the unit, this decreases the benefits of delegation. We then combine this with insights from social learning theory (Bandura, 1986) to argue that the extent to which the loss of control resulting from delegation is accepted is influenced by the amount of authority managers receive themselves from their superiors. When managers receive little authority, they will require more benefits from delegation before choosing to delegate authority, whereas

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managers who receive much authority themselves will be more comfortable with providing autonomy independent of any expected benefits. To test our theory, we use a sample of 215 units in professional services firms. Professional services rely on highly skilled and knowledgeable employees and constraints in setting levels of autonomy are not as strict as in manufacturing, while employee level autonomy is seen as an important feature in the control system of the firm: it is something that professionals value intrinsically (Mazmanian et al., 2013; Von Nordenflycht, 2010). Throughout the paper, we refer to organizational members at the lower hierarchical level as *subordinates* or *employees*, at the middle level as *managers*, and at the higher level as *superiors*. We denote the authority delegated to units and their managers as the level of *decentralization*, and the authority delegated by the manager to subordinate employees as *autonomy* or *delegation*.

Given the positive effects of employee autonomy (Humphrey et al., 2007), it is important to understand what affects a manager's delegation decision, and when and why they choose to limit employee autonomy. By drawing from two theoretical traditions, we develop and test a new perspective for understanding this important managerial decision in a way that prior scholarship in the field of managerial control has not done. We contribute to this understanding not only by identifying structural characteristics impacting this decision, but also by demonstrating the importance of the source of authority from 'above' when managers trade off the benefits and the risks of granting autonomy to employees.

## 2. Background and hypotheses development

### 2.1. Organizational economics: structural drivers of benefits and risks of autonomy

Employee autonomy is the freedom employees have in carrying out their tasks (Morgeson & Humphrey, 2006), and it has been shown to be related to improved employee outcomes (Humphrey et al., 2007). There are two mechanisms through which autonomy may result in increased performance (e.g., Gambardella et al., 2020). First, providing employees with more authority may increase their intrinsic motivation, and through this their performance (Llopis & Foss, 2016; Turner et al., 2021). Second, delegating authority may facilitate improved decision making by locating decision rights at the level where there is more information (e.g., Grant, 1996). While there is substantial empirical support for the motivational mechanism (Seibert et al., 2011), scholars have not fully explained why managers choose to limit delegation as a consequence of fundamental structural characteristics in the organization that are less to do with motivation and more to do with the role of localized information. To develop our hypotheses on the structural drivers of autonomy, we build on the organizational economics literature, which models the delegation decision as a trade-off between improved decision making and a loss of control (Dobrajska et al., 2015).

Delegating authority allows for better decision making, and better performance, when decisions are located at the level where information can be obtained and processed most efficiently and effectively (Cyert & March 1963). Delegating authority is a means to solve information transfer problems within the organization (Mookherjee, 2006). Information transfer is costly, not only in terms of requiring an infrastructure for recording, transforming and reporting information, but also because it is difficult to fully report on local circumstances or contingencies and to do so quickly (Milgrom & Roberts, 1992). Consequently, when employees have more specific knowledge and experience more exceptions in their tasks, delegating authority is more likely to provide benefits (Jensen & Meckling, 1992). When knowledge is specific, this implies that it is less clear which steps need to be taken to react to this knowledge. In this case, employees will be better placed to make this decision and to do so more quickly than their superiors would be able to (Jensen & Meckling, 1976; Frenzen et al., 2010). In the same vein, when employee activities involve more exceptions from normal, 'routine'

activities, it becomes more costly for their managers to be involved in deciding on how to deal with each of these exceptions. Thus, when the number of exceptions increases, delegating authority will result in more efficient decision making (Dobrajska et al., 2015). This results in the following hypotheses:

**H1a.** There is a positive relationship between the extent of specific knowledge in employee tasks and employee autonomy.

**H1b.** There is positive relationship between the number of exceptions in employee tasks and employee autonomy.

The downside of delegation is that it results in a loss of control (Dessein, 2002; Turner et al., 2021): when the manager places decision rights with the employee, the employee may choose actions which are not necessarily beneficial for the organization. This may be because the employee engages in opportunistic behaviour and chooses a less difficult action requiring less effort (Nagin et al., 2002). However, it may also be because the employee cannot assess how a specific action affects other parts of the organization (Hong et al., 2019). Additionally, because it is not possible to identify all possible contingencies before delegating authority, employees may receive guidelines or instructions which result in a suboptimal choice when circumstances change (Mookherjee, 2006).

The risk resulting from delegating authority may be mitigated when it is easier to monitor employee activities (Dobrajska et al., 2015). When it is feasible to accurately assess the employee's output, delegation of authority can be linked with incentive-based pay, which reflects the basic agency theoretic model of managing employees (Jensen & Meckling, 1976). However, for individual employees, output monitoring is often not feasible (Gibbons, 1998). Monitoring employee input enables managers to provide better support towards employees (Garicano, 2000), and it reduces the possibilities for employees to engage in opportunistic behaviour (Frenzen et al., 2010). Thus, delegation will decrease when it is more difficult to monitor employee activities:

**H1c.** There is a negative relationship between monitoring costs of employee tasks and employee autonomy.

### 2.2. Social learning: the cascading effect of authority flowing from 'above' to 'below'

While the benefits and risks involved in delegating authority to employees are well established in the organizational economics field, we argue that there is an additional structural driver of autonomy that has been overlooked and that is informed by a social learning lens. This relates to the extent to which managers have received authority themselves. The decision rights which are granted to employees in the form of autonomy are awarded by unit managers who themselves have been the recipient of a certain level of authority by *their* superior. We suggest that there is a relationship between the authority a unit manager receives from 'above' and the authority this manager passes on to 'below'. To support this argument, we build on social learning theory (Bandura, 1986) to explain how managers aim to emulate their supervisors.

Social learning theory suggests that humans learn through observing and replicating behaviour of credible role models (Bandura, 1986). In hierarchical organizations, superiors provide such a role model. This results in a cascading or trickle-down effect where lower level managers emulate their superiors' leadership styles (Bass et al., 1987). This cascading effect has been observed in various settings. Yang et al. (2010) find that the extent to which supervisors display transformational leadership behaviour directly influences subordinates' transformational leadership behaviour. Walter et al. (2021) find that when team managers use more formal controls, members in their team engage in higher levels of peer control towards their team peers. Mayer et al. (2009) find a significant relationship between top management and supervisory ethical leadership. Park and Hassan (2018) find that managers who feel that their supervisors show empowering leadership feel more empowered themselves. In turn, these managers' subordinates view the

managers' leadership as more empowering.

We argue that the extent of delegation towards the unit manager provides a behavioural norm regarding role requirements for the manager as the recipient of the authority (Yang et al., 2010). Within the social learning theory framework, the cascading or trickling down effect is promulgated by unit managers: they want to emulate their superiors in their behaviour towards their own subordinates. This suggests that managers who are awarded more decision rights will be more willing to delegate authority to their employees. We therefore posit the cascading effect as follows:

**H2.** There is a positive relationship between the authority (decentralization) that unit managers receive from their superiors and employee autonomy.

### 2.3. Cascading of authority mitigating the fear of loss of control

We combine both the organizational economics and the social learning approaches to understanding managers' granting of autonomy to employees by observing that when managers receive more authority, they recognize that their superiors accept the increased loss of control. The leadership literature has observed that being in a position of power is valuable, and powerholders are inclined to try and preserve this power (Williams, 2014). Relinquishing power to subordinates through delegation creates a risk for managers because it means transferring decision rights which the employee may use in opportunistic ways: higher levels of delegation imply a loss of control (Inesi et al., 2011). Feenstra et al. (2020) find that managers who feel less secure about their position, and thus feel less powerful, are less likely to delegate authority. In an experimental study, Haselhuhn et al. (2017) find that participants who report a higher sense of personal power, or who are primed to feel more powerful, are more likely to endorse a trusting management style involving higher levels of delegation of authority. Thus, delegating authority by superiors sends a signal that they accept the risk involved in the loss of control, creating a culture of delegation (Tang et al., 2020), rather than one of power hoarding by unit managers (Williams, 2014).

When delegation by superiors to managers creates such a culture of delegation, this implies that managers are also less worried about the loss of control involved in delegating authority. Consequently, managers receiving more decentralization will require less benefits from the decision to delegate authority to subordinates than managers who have received less decentralization. This means that the relationship between specific knowledge and employee autonomy is less positive at low levels of decentralization: when there is a culture of delegation, managers will be more inclined to grant employees autonomy even when the benefits are less. When decentralization to the manager is less, they will require more benefits from providing autonomy to offset the loss of control. This argument also holds for the relationship between exceptions and autonomy: this will be more positive at low levels of decentralization because managers will require a higher pay-off in return for the loss of control. For monitoring costs, the same logic results in a less negative

relationship with autonomy: managers who have received more decentralization will worry less about the risks of monitoring difficulties and are more willing to delegate. This results in the following hypotheses:

**H3a.** The relationship between specific knowledge and autonomy is less positive when unit managers receive more authority

**H3b.** The relationship between exceptions and autonomy is less positive when unit managers receive more authority

**H3c.** The relationship between monitoring costs and autonomy is less negative when unit managers receive more authority

Fig. 1 presents a graphical representation of our theory.

## 3. Methodology

### 3.1. Sample

Because we aim to understand why managers at unit level in large organizations delegate authority to their subordinates, we do not have a sampling frame. We choose to target managers of units in professional services firms to gather the data to test our hypotheses. Because professional services rely more on highly skilled employees than on tangible assets and technologies, intra-firm dependencies between units are low and technological constraints in setting delegation levels are not very strict. Thus, delegation of authority by the manager is a choice that will be affected only limitedly by organizational-level contingencies. At the same time, professionals prefer high levels of autonomy (e.g., Pichault et al., 2020), so employee level autonomy is an important design variable of the control system of professional services firms (Von Nordenflycht, 2010).

We used a purposive sampling approach for collecting data through institutional and personal networks, which has been shown to work well in such 'hidden' populations (Salganik & Heckatorn, 2004). We approached potential respondents through alumni lists from two global top 100 international business schools with established MBA programs, through networks of current executive students, and through our own business and professional networks, including by referral and through executives (Berg, 1988). Respondents received a personalized email to the anonymous online survey link. We asked respondents to provide us with their job title, and the majority provided titles of Director, Partner, Senior Manager, Principal Consultant or Senior Consultant. We sent follow-up reminders to complete the survey between 2 and 4 weeks after the initial invitation. We kept track of how many invitations to complete the questionnaire were sent out and our received sample of  $n = 215$  from 860 invitations represented a 25% response.

### 3.2. Operationalization

Following initial construction of the survey instrument, we conducted a pre-test with respondents in 15 consultancy firms' practices

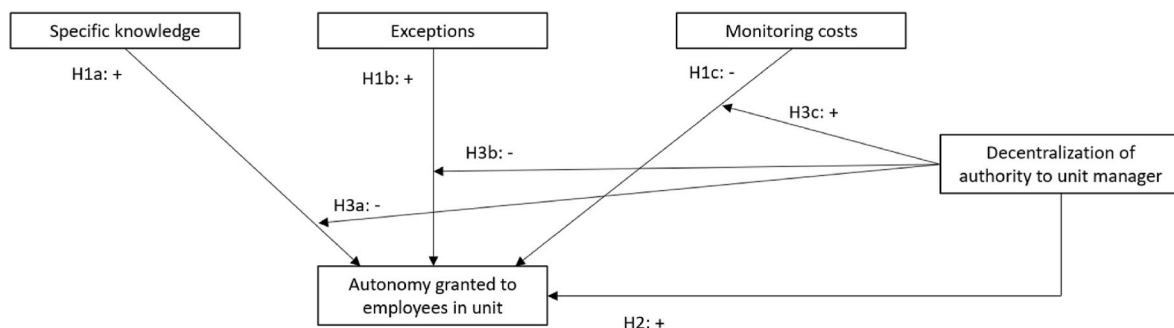


Fig. 1. Conceptual model.

prior to embarking on the full survey. Amendments were made following feedback and more follow-up interviews. The survey contained Likert style statements against which respondents were asked to indicate agreement on a 7-point scale (1 = disagree strongly, 7 = agree strongly). Table 1 presents the factor analysis and survey items for the multi-item constructs. All items load on their theoretically expected factors, showing discriminant validity.

**Table 1**  
Factor analysis.

Item	Aut	Dec	Exc	SpecK	Perf
Professionals in this practice may use their own judgment in solving problems	<b>0.73</b>	0.09	0.22	-0.09	0.20
Professionals in this practice are encouraged to take initiative	<b>0.65</b>	0.13	0.24	-0.13	0.26
Professionals in this practice can schedule their own daily activities	<b>0.78</b>	0.13	0.03	0.09	0.02
Professionals in this practice can choose their own methods and procedures to do their job	<b>0.61</b>	0.24	0.08	0.43	-0.03
This practice has complete discretion over development of new services or markets	0.32	<b>0.53</b>	0.07	0.24	0.21
This practice has complete discretion over hiring and firing practice members	0.27	<b>0.68</b>	0.08	0.02	0.17
This practice has complete discretion when it comes to deciding on large investments	-0.02	<b>0.85</b>	0.02	0.02	0.15
This practice can make budget allocations in ways it sees fit	0.10	<b>0.82</b>	-0.03	-0.10	0.05
We are able to set our own pricing without interference from the corporation	0.18	<b>0.74</b>	-0.01	0.02	0.05
Activities in our practice are repetitive [R]	0.06	-0.03	<b>0.88</b>	0.18	-0.05
Activities in our practice are routine [R]	0.14	0.01	<b>0.91</b>	0.10	-0.02
Practice members do the same job in the same way from day to day and client to client [R]	0.06	0.05	<b>0.85</b>	0.07	0.11
There is an understandable sequence of steps to perform practice activities [R]	-0.01	0.09	0.34	<b>0.67</b>	0.09
Practice members can rely on established procedures and practices to perform their activities [R]	0.06	-0.02	0.11	<b>0.83</b>	-0.05
There a clearly known way to do the major types of work in this practice [R]	-0.01	-0.06	0.13	<b>0.83</b>	-0.04
How would you assess this practice's overall performance over the past three years relative to comparable practices of competing organizations	0.12	0.07	0.03	0.03	<b>0.81</b>
How would you assess this practice's overall performance over the past three years relative to the average performance of your organization	0.12	0.08	0.02	-0.01	<b>0.86</b>
How would you assess this practice's overall performance over the past three years relative to your own expectations	0.00	0.22	-0.02	-0.06	<b>0.79</b>
Eigenvalue	1.52	4.44	2.98	1.33	1.83
% Variance explained	0.08	0.25	0.17	0.07	0.10
Cronbach alpha	0.69	0.82	0.88	0.76	0.79

N = 215. Factor analysis with varimax rotation; highest factor loadings in bold. [R]: item is entered into the factor analysis with reversed scores. Factors: *Aut* Autonomy, *Dec* Decentralization, *Exc* Exceptions, *SpecK* Specific knowledge, *Perf* Performance.

*Autonomy.* The dependent variable was captured through four items drawn from *Morgeson and Humphrey (2006)* to reflect work scheduling, work methods, and decision-making autonomy. The alpha of the four-item construct is 0.69.

*Decentralization.* We captured *decentralization* to the unit using the well-established five-item scale from *Govindarajan (1988)*, with an alpha of 0.82.

*Specific knowledge and exceptions.* We used *Withey et al.'s (1983)* well-known and frequently used task uncertainty scale to proxy for the extent of specific knowledge and exceptions in employee tasks. The scale consists of two components: analysability (or programmability) and repetitiveness (or variability). Task analysability reflects the extent to which there is a clearly known way of carrying out the task that is captured in established procedures. When task analysability is higher, there is less specific knowledge with the employee. We measure specific knowledge by taking the reverse score of the three analysability items (alpha 0.76). Task repetitiveness reflects the extent to which activities are repetitive and routine. We measured exceptions by taking the reverse score of the three repetitiveness items (alpha 0.88).

*Monitoring costs.* To proxy for monitoring costs, we made use of the interactive nature of services (*Larsson & Bowen, 1989*). Professional services involve activities performed by the organization for individual customers (*Subramony & Pugh, 2015*). In addition, professional services are characterized by higher levels of customization (e.g., *Pemer & Skjølsvik, 2019*). When units have a large number of clients, due to the non-storability of services (*Miozzo et al., 2012*), the activities in the client relationships will be in varying stages of completion, with varying demands in terms of staffing, resources, and client contact: as the number of clients increases, it's more likely that they will be in different industries, with different types of issues and problems and therefore different types of projects, and that some will be in the starting phase of an engagement and others in the development phase. As a result, the tasks and activities in a unit will cover a broader range when there are more clients, making it more difficult for the manager to evaluate and assess the unit activities. We therefore used the number of clients as a proxy for monitoring costs (*Brush & Artz, 1999*). The number of clients is measured with the question 'How many client organizations does your practice currently serve', with answer categories Less than 5, 5–9, 10–24, 25–100, 100+, where we transform this into an ordinal scale of 1 (Less than 5) to 5 (100+).

*Control variables.* Given that we had a broad range of sectors in our sample, we controlled for possible sector differences in management practices by using dummies for the largest sub-groups in the sample, namely those who identified themselves as units performing management consultancy (38% of the sample) and those performing accountancy and auditing (23%). We controlled for prior unit performance by asking respondents about the performance relative to competitors, the organization, and expectations (alpha 0.78). When a unit performs better, this likely implies that employees are capable, and *Leana (1987)* and *Yukl and Fu (1999)* find that delegation is higher for more capable employees. Finally, we controlled for firm size as measured by number of employees on a scale of 1 (less than 100) to 4 (more than 5000 employees). *Kalleberg and Van Buren (1996)* find that employee autonomy is negatively related to establishment size, and *Chenhall (2003)* observes that larger firms tend to use more formal controls.

### 3.3. Data quality

Because we used purposive sampling, representativeness and non-response bias are difficult to assess: there is no sampling frame for our units, and we do not know the characteristics of non-responding practices. Common method variance can bias results when relationships between variables captured from one single source are examined, a concern in our study (*Podsakoff & Organ, 1986*). *Siemsen et al. (2010)* have shown that common method variance biases *against* finding interaction effects, which means that it is not a concern with respect to

the moderating hypotheses. Nevertheless, we took the following measures to address this concern. We ran Harmon’s single factor test (Podsakoff & Organ, 1986) and found the un-rotated solution to have six factors with the first factor explaining 22%, i.e., considerably less than 50% of the total variance, while items relating to the same construct load on the same factor. Secondly, our model specification was complex and we do not believe respondents could have anticipated the results. Thirdly, we ensured the confidentiality of data collected and communicated this clearly to our respondents when encouraging them to answer the questions honestly. We also examined variance inflation factors in regression models and do not expect multi-collinearity to affect our interpretation of the results given a very low maximum VIF of 1.44.

4. Results

Table 2 shows descriptives and correlations. The mean for autonomy is relatively high at 5.59. This reflects the nature of the sample: professional services firms are typically characterized by high levels of autonomy (Von Nordenflycht, 2010). We note that the unit level characteristics of specific knowledge, exceptions, and monitoring costs have no significant correlations with decentralization, confirming that. These characteristics do not affect higher management’s decision to delegate decision rights to unit managers. Additionally, while the correlation between autonomy and decentralization is substantial at 0.42, their correlations with the unit level characteristics are very different, providing further assurance that common method variance is not a serious problem in our sample.

Regression results are presented in Table 3. With respect to the control variables, we see that the accountancy dummy has a negative coefficient, which reflects the highly regulated nature of this industry. We also see that managers who report that their unit performs well provide their employees with more autonomy, confirming existing findings (e.g., Yukl & Fu, 1999). With respect to the hypotheses, we see that Hypotheses 1a-1c are supported: in all models, specific knowledge and exceptions are positively related with autonomy, while monitoring costs are negatively related, at  $p < 0.10$  or less. We also see support for Hypothesis 2: decentralization has a positive coefficient significant at  $p < 0.01$ , and its inclusion in Model 3 results in a substantial significant increase in  $R^2$ . Finally, in Model 4 the interaction terms are included, resulting in a significant increase in  $R^2$ . Here we see support for Hypothesis 3a: the relationship of specific knowledge with autonomy is negatively moderated by decentralization ( $p < 0.1$ ). There is no support for the moderating effect of decentralization on exceptions (H3b). Hypothesis 3c is supported at  $p < 0.05$ . Decentralization positively moderates the relationship between monitoring costs and autonomy.

Figs. 2–4 provide the interaction plots derived from Model 4. Fig. 2 shows that for high levels of decentralization there is no strong relationship between specialized knowledge and autonomy: when managers

Table 2 Descriptives and correlations.

	Mean	SD	Aut	SpecK	Exc	Monit	Dec	Acc	Cons	Size	Perf
Autonomy	5.59	0.82	1								
Specific knowledge	3.05	1.07	0.21***	1							
Exceptions	4.52	1.35	0.29***	0.34***	1						
Monitoring costs	3.87	1.19	-0.18***	-0.08	-0.07	1					
Decentralization	4.69	1.25	0.42***	0.06	0.07	0.03	1				
Accountancy	0.24	0.43	-0.26***	-0.08	-0.23***	0.26***	-0.04	1			
Consultancy	0.37	0.48	0.05	0.09	0.31***	-0.14**	-0.11	-0.43***	1		
Size company	2.90	1.18	-0.13*	-0.07	0.08	0.28***	-0.22***	0.14**	0.16**	1	
Performance	5.18	1.04	0.24***	-0.03	0.04	0.19***	0.31***	0.05	-0.1	0.08	1

N = 215; two-tailed tests for normal Pearson correlations with \*  $p < 0.1$ ; \*\* $p < 0.05$ ; \*\*\* $p < 0.01$ . Coding of additional variables: *Monitoring costs* is measured by the number of clients, 1 = less than 5 clients, 2 = 5–9 clients, 3 = 10–24 clients, 4 = 25–100 clients, 5 = 100+ clients; *Accountancy* and *Consultancy* are dummies which are 1 for observations from the respective sector, 0 otherwise; *Size company* is a scale with 1 = less than 100 employees, 2 = 100–499 employees, 3 = 500–4999 employees, 4 = 5000+ employees.

Table 3 Results of OLS regressions on autonomy.

	H	Model 1	Model 2	Model 3	Model 4
Constant		4.88*** (16.67)	4.79*** (16.45)	5.02*** (18.16)	4.93*** (18.04)
Accountancy		-0.51*** (-3.67)	-0.40*** (-2.93)	-0.36*** (-2.85)	-0.32** (-2.56)
Consultancy		-0.03 (-0.28)	-0.17 (-1.36)	-0.12 (-1.04)	-0.11 (-1.01)
Size company		-0.08* (-1.65)	-0.05 (-1.14)	0.00 (0.09)	-0.01 (-0.24)
Performance		0.21*** (4.06)	0.21*** (4.32)	0.13*** (2.67)	0.15*** (3.18)
Specific knowledge	H1a: +		0.09* (1.86)	0.08* (1.82)	0.09* (1.79)
Exceptions	H1b: +		0.13*** (3.16)	0.11*** (2.93)	0.14*** (3.41)
Monitoring costs	H1c:-		-0.10** (-2.15)	-0.11** (-2.57)	-0.11*** (-2.64)
Decentralization	H2: +			0.22*** (5.42)	0.22*** (5.32)
Specific knowledge x Decentralization	H3a:-				-0.07* (-1.88)
Exceptions x Decentralization	H3b:-				0.01 (0.45)
Monitoring costs x Decentralization	H3c: +				0.07** (2.29)
R <sup>2</sup>		0.15	0.24	0.33	0.37
Adjusted R <sup>2</sup>		0.13	0.21	0.31	0.33
F		8.96***	9.21***	12.83***	10.64***
Change in R <sup>2</sup>			.09	0.10	0.03
F for change in R <sup>2</sup>			8.3***	29.35***	3.53**

\*  $p < 0.1$ ; \*\* $p < 0.05$ ; \*\*\* $p < 0.01$ . Two-tailed tests, *t*-statistics in parentheses below the coefficients. N = 215.

receive much authority themselves, they do not require more benefits to cascade authority. However, at low levels of decentralization the relationship between specialized knowledge and autonomy is positive. In this case, the fear of loss of control results in managers only granting autonomy when the benefits increase. Likewise, Fig. 4 suggests that only at low levels of decentralization managers worry about the loss of control, and refrain from delegating authority when monitoring becomes more difficult.

As a robustness check, we also run the models without the control variables accountancy, consultancy, size company, and performance. When we do this, the results remain similar in terms of sign and significance except for the coefficients involving specific knowledge which drop slightly below conventional significance levels. Running Model 4 without the control variables results in a direct effect of specific knowledge of 0.06 ( $p = 0.16$ ) (compared to 0.09,  $p < 0.1$  with control

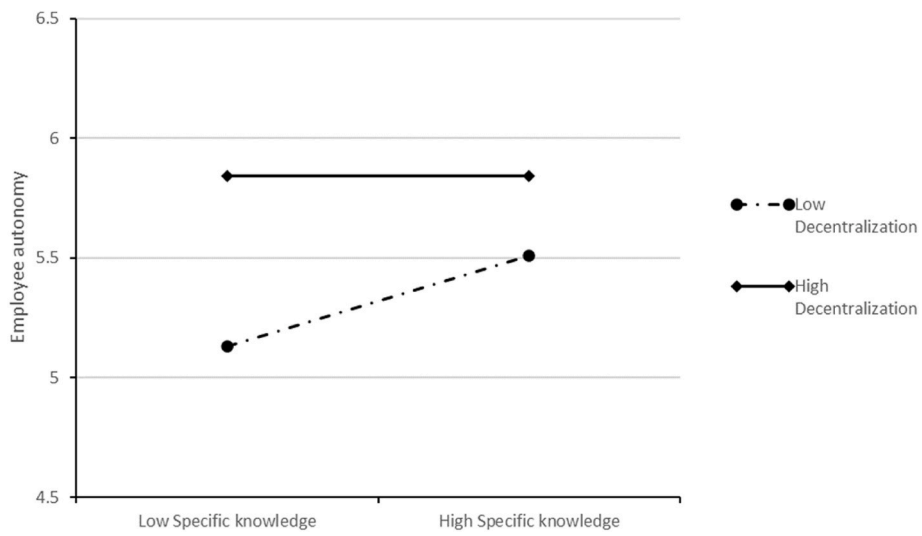


Fig. 2. Interaction of specific knowledge and decentralization.

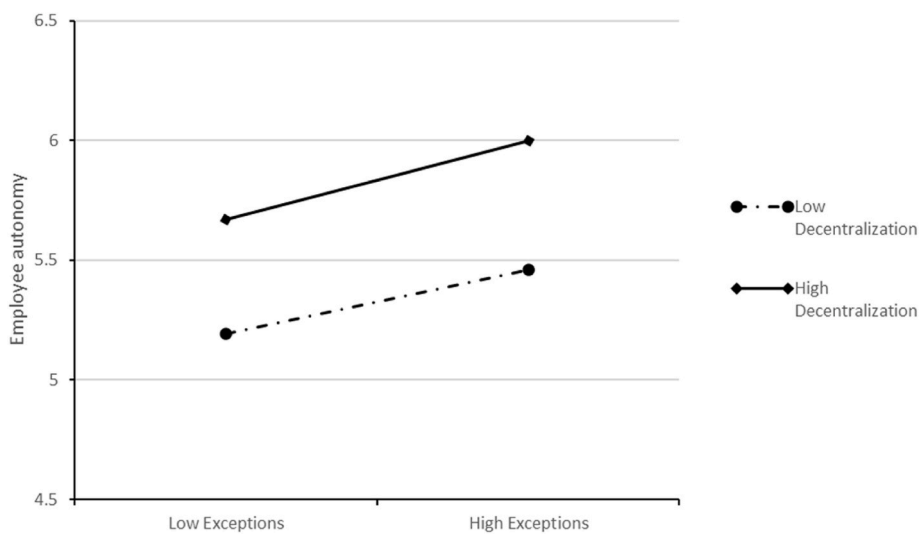


Fig. 3. Interaction of exceptions and decentralization.

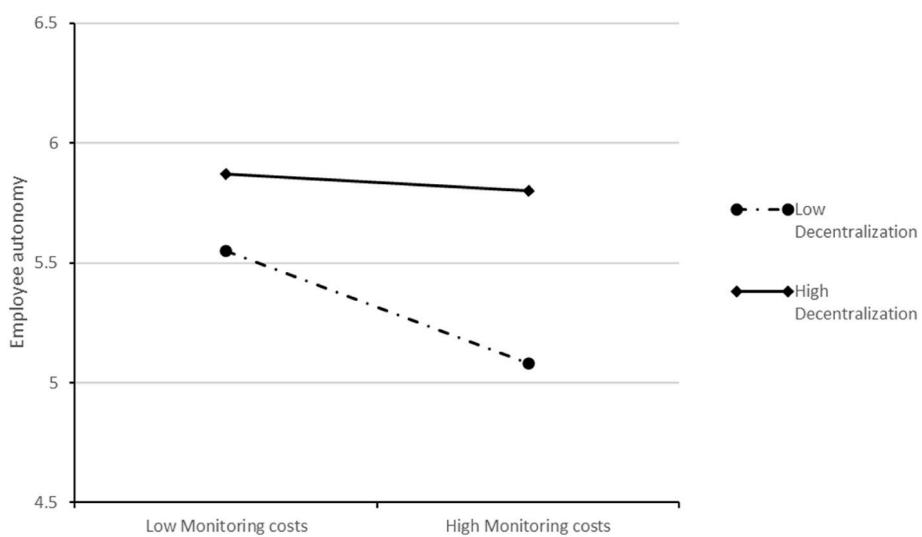


Fig. 4. Interaction of monitoring costs and decentralization.

variables), and a coefficient for the interaction of specific knowledge with decentralization of  $-0.05$  ( $p = 0.14$ ) (compared to  $-0.07$ ,  $p < 0.1$  with control variables). The other coefficients keep their sign and significance levels.

## 5. Discussion

The present study contributes to the literature on how managers balance the trade-off between benefits and risks in granting autonomy to their employees. While the positive effects of employee autonomy are well-established (Humphrey et al., 2007), delegation of authority also involves a loss of control. This has presented a puzzle to managers and scholars alike and has not been entirely resolved in the academic literature (Dobrajska, 2015; Empson, 2019). By combining insights from organizational economics and social learning, our study contributes to this puzzle on how managers make this trade-off. We find support for both organizational economics logic and social learning logic when we treat these separately as direct effects. However, where we break new ground is by combining these logics together. Our tests here show support for our theory that the cascading effect as predicted by social learning moderates the influence of structural characteristics as predicted by organizational economics. Only at low levels of decentralization received by the unit manager do we find a positive effect of specific knowledge, and a negative effect of monitoring costs on autonomy. The interpretation is that at low levels of cascading, there is a larger fear of loss of control involved in granting autonomy (Dessein, 2002), an effect not empirically identified in prior work.

Our work contributes to the literature on delegation and autonomy in a number of ways. First, we apply the logic of organizational economics at the employee level, and show that it helps in understanding employee autonomy: employee autonomy increases when the benefits of delegating authority are higher, and decreases when it is more difficult to monitor employee activities. There is a body of work investigating how employee-level characteristics such as perceived employee capabilities or the quality of the relationship of the employee with the supervisor affects the delegation decision (Yukl & Fu, 1999; Feenstra et al., 2020). Our work extends this literature by identifying structural characteristics which are independent of the subordinate's personal characteristics. Our results add to the limited empirical literature invoking structural characteristics on how managers decide to delegate authority to employees (Feenstra et al., 2020; Tang et al., 2020). By identifying generic characteristics of employee activities, we provide a framework that can be applied beyond the industry-specific settings of Frenzen et al. (2010) and Dobrajska et al. (2015).

Second, building on the cascading effects logic from the social learning literature, we show that managers transform decentralization as a unit-level characteristic (i.e., authority received by a unit manager) into increased autonomy within the corps of the unit's employees (Park & Hassan, 2018; Yang et al., 2010). This cascading effect helps in understanding how power flows throughout hierarchical organizations (Grant, 1996; Garicano, 2000; Dobrajska et al., 2015). Using social learning theory (Bandura, 1986; Walter et al., 2021), we posit that the authority which is received by a manager is passed on to their subordinates. We find a strong positive relationship between decentralization and autonomy. Unit managers want to emulate their superiors' behaviour, and when they receive more decision rights themselves, they also provide their subordinates with more freedom. However, we extend the limited literature that examines this phenomenon by focusing on decentralization, which is an organizational characteristic, rather than on leadership styles (Park & Hassan, 2018; Yang et al., 2010).

Thirdly, by establishing the moderating effect of cascaded decision rights on the relationship between unit-level characteristics and autonomy, we find empirical support for how the risk of loss of control affects the delegation decision. Previous literature has not been able to identify the impact of this theoretical determinant of delegation empirically (e.g., Acemoglu et al., 2007). As the interaction plots show, at high levels of

decentralization there is no substantial impact of either specific knowledge or monitoring costs. When managers receive more authority themselves, they cascade this authority downwards and do not require (consider) higher (potential) benefits resulting from more specific knowledge. Neither are they held back by higher monitoring costs in delegating authority. However, there is no moderating effect of cascading with respect to exceptions in the employee tasks. This suggests that the number of exceptions does not affect the fear of loss of control, even while the direct effect of exceptions on the extent of delegation adheres to the logic of benefiting from more local knowledge with the employee. This indicates that the impact of the number of exceptions as such is different from specialized knowledge: more exceptions result in more costly information transfer, but not in higher risk because exceptions do not speak to the specificity of the knowledge as such. This finding adds an important nuance to the organizational economics view of structural factors that determine the trade-off between benefits and risks of delegation. The fear of loss of control is not a consideration when there are higher exceptions with the subordinate's task, although it is a consideration when there is more specific knowledge with the subordinate. One of the advantages of using the social learning perspective to shed light on the organizational economics perspective is to highlight this important nuance with respect to the result for H3a and H3b.

### 5.1. Managerial implications

Our results have implications for unit managers in professional service firms - and similar settings (including in-house consultancy, legal, communications and accounting departments) - where there is discretion in setting levels of employee autonomy within units. If a manager faces a decision to grant autonomy to - or conversely, remove autonomy from - a subordinate or group of subordinates in a unit, our results can provide guidance. Firstly, the manager will need to understand the level of specific knowledge in the unit. If there is a well-established and known way to execute tasks within the unit, specific knowledge will be lower and the manager should not feel the need to grant autonomy because of any difficulty in understanding their employees' actions. Conversely, if there is a high level of exceptions within the unit, making it difficult to establish repeatable routines, managers should accept that letting go of control through granting autonomy might be worth the risk. And if there are high monitoring costs, as we argue would be the case when units are dealing with large numbers of clients, then granting less autonomy would make sense. The current study also emphasizes the importance of the source of authority from 'above' when unit managers make these decisions. It will be important for the unit manager to look towards their own superiors. If the managers themselves have received decision rights 'from above', they should not hoard these rights without reason. According to our findings, both specific knowledge and monitoring costs within the unit matter to this cascading effect, although the level of exceptions in the unit does not (Figs. 2–4). It is only when a unit manager receives little by way of decentralization from above (the dashed line in Fig. 2) that the effect of specific knowledge in the unit applies to the cascading effect (the dashed line in Fig. 2), and that the effect of monitoring costs in the unit become very pertinent (the dashed line in Fig. 4).

Furthermore, at a higher organizational level, leaders of large multi-unit organizations that aim for more autonomy at the employee level should create a 'culture of delegation' (Tang et al., 2020); they cannot be present in each and every organizational unit to observe how authority is cascaded. Any fear that superiors may have of power hoarding by unit managers when delegating authority (Williams, 2014) can be reduced by nurturing such a culture. At the same time, as noted above, the characteristics of the activities in units are relevant to whether a manager might hoard power given to them. Higher level superiors may need to take this into account when considering how to build an organizational climate in which delegation is encouraged by all levels. They will need to consider the fundamental nature of specific knowledge and

monitoring costs across the organization when deciding whether a ‘culture of delegation’ makes sense. Additionally, when trying to build a ‘culture of delegation’ top managers will need to realize that when unit managers do not perceive that their superiors accept the risk of loss of control, they themselves will be more hesitant to accept this risk. This principle should be recognized and emphasized as the organizational culture is developed.

### 5.2. Limitations and future research

The limitations of the paper follow from the survey method we employed. First, there is a risk of common method bias. This risk is mitigated by the fact that we rely on interaction models for Hypotheses 3a-3c. As Siemsen et al. (2010) show, interaction models cannot attain significance through common method bias, should this be present. Indeed, if there is common method bias, this lowers the probability of observing a significant interaction. Additionally, the task characteristics specific knowledge and exceptions are reverse scored relative to the other constructs (see Table 1), yet they still have a positive coefficient, which does not fit with a common method factor underlying the responses. Second, with a cross-sectional survey, we cannot claim causality regarding the impact of the structural characteristics and the cascading effect on autonomy. While reverse causation cannot be eliminated from a statistical point of view, we find it difficult to develop theoretical arguments for the level of autonomy provided by managers to their employees to be driving the level of decentralization these managers receive from their superiors. Such an argument is more cogent with respect to the task characteristics, in that providing employees with more autonomy might result in managers interacting less with their employees, and thus being less knowledgeable about the task. Nevertheless, the logic underpinning the interaction hypotheses remains valid if this were the main direction of causality: managers who receive less authority themselves are less inclined to provide their employees with autonomy and to reduce their knowledge about employees’ tasks.

With respect to our sampling strategy, we use a convenience sample through purposive networking. We required our respondents to have managerial responsibility in a defined practice area of a professional services firm. Given the nature of our respondents, it is difficult to achieve a similar high quality sample using an online panel such as MTurk with appropriate filters (e.g., Arndt et al., 2022). We provided the survey link to the target respondents via personal email from our institutional affiliations. This means that even while the survey itself was filled in anonymously, it was only accessible to respondents with the managerial responsibility we were looking for. Furthermore, over half of the respondents voluntarily provided their email details when submitting the survey. This is important because it acts as a confirmation that the intended practice director – who had been previously identified – filled in the survey. This check is not available in anonymous online panels.

Third, our survey is set in the professional services industry. This industry provides a context in which autonomy is valued by employees, and where technological constraints in providing autonomy are relatively low (Von Nordenflycht, 2010). It is not clear whether the empirical patterns we find are representative of those in markedly different industries such as manufacturing, where the pull of autonomy by employees is less present and the feasibility of providing autonomy may be lower. Fourthly, our proxy for monitoring costs does not factor in how monitoring is actually performed, such as through automated monitoring, self-reports, third-party monitoring, or audits, or the nature of the monitoring data that is collected. We see this as a potential avenue for future work. Finally, our research investigates managers’ choices in granting autonomy, but we do not investigate how this affects employees’ performance, motivation, or psychological empowerment (Seibert et al., 2011).

Future research can address these limitations while also conducting new inquiry into the boundary conditions that determine how authority

is cascaded through organizations. It could examine the question of whether exceptions can act as a boundary condition on the cascading of authority in a different way, perhaps through a different operationalization or data source. Our hypothesis for this (H3b) received no support in the current analysis, yet we do note the direct effects for exceptions and decentralization. A replication study in manufacturing firms would be useful to understand how fundamental sectoral differences determine the trade-off between benefits of granting autonomy and loss of control. It would allow our theory to be substantiated or refined to incorporate the nature of knowledge and the need for control in different sectors. Work should also examine performance implications of cascading authority in both financial and non-financial terms. Case based and qualitative approaches using primary data can be used to develop process models and longitudinal insight into cascading authority and subsequent outcomes. Such approaches could seek to collect examples of decisions, tasks and exceptions, sources of monitoring costs and the nature of knowledge at multiple hierarchical levels in an organization. This is likely to involve interviews and observations at upper-, middle- and lower-levels of the organization, allowing rich data within the ‘chain of command’ to be scrutinized in relation to specific types of decisions and choices.

### 5.3. Conclusion

By integrating organizational economics (Milgrom & Roberts, 1992) and social learning theory (Bandura, 1986) we offer a more comprehensive explanation of managers’ autonomy decisions than either of these theories do in isolation. We show that employee autonomy can be understood through both the structural characteristics of the employee activities as well as through the decentralization to the managers that make the key decision to grant autonomy. This provides a more comprehensive explanation of the autonomy decision, and a new way of showing how managers trade off the benefits of delegation to employees with the risk of loss of control.

### Declaration of competing interest

None.

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