



Parenting styles and value creation: a management control approach¹

Fredrik Nilsson*

At the end of the 1980s, Goold and Campbell (1987) helped to generate new interest in the subject of management's ability to create value. According to Goold *et al.* (1994) this ability is manifested in different so-called parenting styles in which the corporate strategic planning and follow-up processes play an important part. While strategic planning and follow-up are emphasized, other parts of the corporate management control system are treated in less detail. Nor do Goold *et al.* discuss in any detail how management needs, in regard to the systems of control, may be different at the business-unit level than at the corporate level. These divergent requirements can make co-ordinated planning and follow-up more difficult for the corporate group as a whole and thus limit the chances of establishing a distinct parenting style. To improve our knowledge and understanding of the relationships between parenting style, the design and use of management control systems, and value creation, four Swedish corporate groups have been studied. These case studies show that a successful parenting style is characterized by established principles for balancing corporate management's need for co-ordinated control systems against the needs of the business units for situation-specific control systems. The study shows that these principles vary with the type of parenting style. © 2000 Academic Press

Key words: business strategy; corporate strategy; management control systems; strategic control systems; parenting style; value creation.

1. Background

The growing emphasis on total shareholder return during the last decade has created new interest in how corporate groups create value for their shareholders. Two concepts which have received considerable attention in this connection are corporate strategy and synergy potential. Goold and Campbell (1987a, 1998) maintain that these concepts are far too focused on whether or not the activities of the corporations business units are related, and that the ability of corporate management to create

¹ The author appreciates greatly the constructive comments received on the present and preceding drafts from Professor Birger Rapp and other colleagues at the University of Linköping. Very useful comments were also provided by the participants at the Fourth International Management Control Systems Research Conference in Reading in 1998 and by two anonymous reviewers.

* Deloitte Consulting, P.O. Box 101 52, 121 26 Stockholm-Globen, Sweden (e-mail: fredrik.nilsson@deloitte.se). Also at Economic Information Systems, Linköping University and Institute of Technology.

Received 24 October 1998; accepted 23 November 1999.

value by designing suitable systems of planning and follow-up is at least as important. This ability is manifested in different so-called parenting styles. Goold *et al.* (1994) use the concept of parenting style to highlight the role of corporate management in identifying and implementing corporate and business strategies.

On the basis of how corporate management choose to control the strategic planning and follow-up processes, Goold *et al.* (1994) have identified eight different parenting styles. The authors find that three of these styles have proved particularly successful in creating value for shareholders. These three styles have a very clear structure for organizing strategic planning (including the budget process) and follow-up. The structure provides a formal framework which facilitates the strategic dialogue between corporate management and the business units. It also helps to clarify and communicate overall corporate strategy. In addition to these advantages, the ability of corporate management to create value by identifying and implementing suitable strategies can be enhanced still further if the means of control are not limited only to routines for strategic planning and follow-up; investment control, transfer pricing, and key ratios should also be considered when a parenting style is to be established. The theories of Goold *et al.* (1994) should, therefore, be extended to include these elements of management control. In light of the above, the first research-question can be formulated as follows:

- Is there a relationship between parenting style and the design and use of corporate management control systems, and if so, what is the nature of this relationship?

As Goold *et al.* (1994) have chosen to concentrate on the corporate-management level, the management control systems of the business units are treated superficially. To judge from the authors' general reasoning, it would appear that they recommend limitations on the freedom of business units to adapt their systems of control to their own situations. Otherwise it would be difficult to establish a clear parenting style in which the corporate system of planning and follow-up affect all levels of the organization (Goold *et al.*, 1994, p. 418). On the other hand, Hall (1987) maintains that in diversified corporate groups the management control systems must be adapted to circumstances at the business-unit level if the units are to be able to develop their business and create value. Although the corporate management control system can adversely affect the control of the business units—and thus the ability to create value—there are few empirical studies to support this statement (cf. Jones, 1983). In light of this reasoning, the following research questions can be formulated:

- Under what conditions are the requirements concerning the design and use of the overall corporate system of management control consistent with the requirements of business-unit managers and employees concerning the management control system of their own unit?
- How does the organization deal with difficulties in co-ordinating the corporate and business-unit systems of management control?
- How are the possibilities of creating value affected by the design and use of the control systems at the corporate and business-unit levels, respectively?

Below follows a review of the literature on the relationships between value creation, parenting style and the design and use of management control systems. In Section 3,

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