

# Integrating business strategy, organizational configurations and management accounting systems with business unit effectiveness: a fitness landscape approach

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## Abstract

This study adopts a fitness landscape approach to test contingency hypotheses about the relationship between business strategy, organizational configurations, management accounting systems, and business unit effectiveness. Central to this approach is the notion of contingent fit between strategic priorities and its contextual variables. Building on Kauffman's *N*-locus, two-state additive fitness model, this study predicts that the degree of contingent fit, defined as the weighted sum of independent fitness contributions of each contextual variables, will have a positive association with business unit effectiveness.

Based on a mail survey and personal interviews of 106 business unit managers of publicly held companies listed under consumer goods industry, this study indicates that the degree of contingent fit has a positive association with business unit effectiveness. Further analysis reveals that strategic priorities affect the types of controls and management accounting systems used by the business units.

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## 1. Introduction

In today's business environment, companies need to take every advantage they can to remain competitive. Global competition, rapid innovation, entrepreneurial competitors, and increasingly demanding customers have altered the nature of competition in the marketplace. This new competitive en-

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vironment requires companies' ability to create value for their customers and to differentiate themselves from their competitors through the formulation of a clear business strategy (Simon, 2000; Porter, 1985). Other researchers, however, argue that to achieve competitive advantages and to ensure high performance, a clear business strategy is a necessary but not a sufficient condition. Business strategy must be supported by appropriate organizational factors such as effective manufacturing process, organizational design and accounting information systems (e.g., Jermias and Armitage, 2000; Waterhouse and Svendsen, 1998; Shank and Govindarajan, 1993; Johnson and Kaplan, 1987).

Researchers have attempted to explain how accounting systems might be affected by the fit between environmental, organizational, and decision-making style factors. Bruns and Waterhouse (1975) were among the first to address the contingent nature of environment, technology, organizational structure, and management control systems by hypothesizing that there is no universally appropriate accounting system which applies equally to all organizations in all circumstances. Rather, they suggest that appropriate accounting systems depend upon organizational contextual variables (see also Otley, 1980; Waterhouse and Tiessen, 1978; Gordon and Miller, 1976). Otley (1980), for example, proposes the need to identify specific aspects of an accounting system that are associated with certain defined circumstances and demonstrate an appropriate matching. More recent researchers that employ contingency theory have incorporated strategy as an important contingent variable (Chenhall and Langfield-Smith, 1988; Samson et al., 1991; Dent, 1990; Gupta, 1987; Gupta and Govindarajan, 1984).

Central to the contingency approach in examining the relationships between strategic priorities, organizational configurations, and management accounting systems is the notion of contingent fit. This approach asserts that neither the type of strategy, nor the organizational configuration will directly affect performance. Rather, this approach suggests that the most important determinant of performance is the contingent fit between the chosen strategy and its contextual variables.

While previous studies have added to our understanding of the interrelationship between contextual variables and organizational design, few, if any contingency studies have successfully developed and measured the construct of "appropriate match" or fit between strategic priorities and its contextual variables. In addition, previous studies tend to underutilize performance measures as dependent variables (notable exceptions include Govindarajan and Gupta, 1985; Govindarajan and Fisher, 1990; Chenhall and Langfield-Smith, 1988), even though these variables are considered by many as key components of a system-based contingency approach (e.g., Ginsberg and Venkatraman, 1985; Govindarajan and Gupta, 1985; Selto et al., 1995; Garg et al., 2003). Researchers argue that ignoring performance variables not only impedes the development of a true contingency theory (Otley, 1980) but also indicates the lack of consideration that organizational researchers have for the concerns of practitioners (Sussman and Evered, 1978).

The objective of this paper is to contribute to the limited body of knowledge in this area by attempting to develop and measure the contingent fit between strategic priorities and its contextual variables using fitness landscape approach and investigate the association between the level of contingent fit and effectiveness at business unit levels.

A mail survey and personal interviews are used to collect quantitative information from business unit managers of publicly held companies listed under consumer goods industry. Consistent with the main prediction, the level of contingent fit has a significant positive association with business unit effectiveness. Further analysis reveals that strategic priorities do not affect the relationship between the level of con-

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