



Management control systems, business strategy and performance: A comparative analysis of family and non-family businesses in a transition economy in sub-Saharan Africa[☆]



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ABSTRACT

This article compared the relationships among management control systems (MCS), business strategy and firm performance in family businesses (FBs) and non-family businesses (NFBs) in the context of a transition economy in sub-Saharan Africa that has not been previously studied – Ghana. The findings indicated that the influence of MCS on business strategy is contingent on whether the firm is a FB or NFB. The influence of (i) DCS on the cost leadership strategy is stronger for NFBs than FBs; (ii) ICS on the differentiation strategy is stronger for FBs than NFBs; and (iii) the dynamic tension created by the joint use of DCS and ICS on both the cost leadership and differentiation strategies is stronger for FBs than NFBs. Moreover, business strategy mediates the MCS–performance relationships; however, both the indirect and total impacts of MCS on performance are stronger for FBs than NFBs.

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1. Introduction

In the contemporary competitive, complex and changing global business environment, firms are being challenged to adopt business models that enable them to address the strategic uncertainties and risks they face in their business environments. Management accounting researchers argue that one of the ways firms can continually rejuvenate themselves to survive and succeed in these complex and uncertain environments is to understand the role of management control systems (MCS) in creating competitive advantages (Simons, 2000; Widener, 2007). According to Simons (2000, p. 4) MCS are “the formal, information-based routines and procedures used by managers to maintain or alter patterns in organizational activities.” MCS includes management accounting systems, budgetary practices, performance measurement systems, project management systems, planning systems, and reporting systems (Simons, 1990). The purpose of MCS is to provide information that is useful for managerial decision-making, planning, monitoring and evaluation of organizational activities to alter employee behaviour (Merchant & Otley, 2007). MCS also provide strategic direction to the innovative

efforts of firms, and the efficiencies they produce can free up resources for innovative activities (Marginson, 2002). Strategy and accounting researchers, therefore, contend that MCS are critical in helping top managers formulate strategies, specify the operational actions required to implement these strategies, clarify mutual expectations, identify priorities for operational improvements, and set targets that may influence current and subsequent performance (Simons, 1994).

The management accounting literature is replete with studies that investigate the role of MCS in strategy formulation and implementation (Bruining, Bonnet, & Wright, 2004; Henri, 2006; Kober, Ng, & Paul, 2007; Langfield-Smith, 1997; Simons, 1990). However, none of these studies have examined how MCS are used in family businesses (FBs), which constitute approximately 90% of all businesses worldwide, and how the use of MCS influences the implementation of business strategy and performance in FBs. Previous studies on MCS in FBs focused on establishing the existence of Ouchi's (1979) bureaucratic control versus clan control framework (Moores & Mula, 2000). Moreover, the FB literature is devoid of studies examining how FBs use formal management controls, incentives, and information systems to formulate and implement strategy and how these methods subsequently affect performance. FBs exhibit some unique characteristics that distinguish them from nonfamily businesses (NFBs), with the primary uniqueness stemming from the integration of family life and business activities; their desire to preserve the family's socioemotional wealth; and the pursuit of both financial and nonfinancial goals (Gomez-Mejia, Cruz, Berrone, & De Castro, 2011; Habbershon & Williams, 1999;

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Hoffman, Hoelscher, & Sorensen, 2006; Sirmon & Hitt, 2003; Tagiuri & Davis, 1996). These differences between FBs and NFBs have implications for the use of MCS to support the implementation of business strategy and how they influence performance.

The objective of this study is to examine the extent to which FBs use MCS and how their use of MCS enables them to gain competitive advantages by affecting the implementation of their business strategy and performance relative to NFBs in a transition economy in sub-Saharan Africa – Ghana. The study focuses on sub-Saharan Africa in general and Ghana in particular because almost all small, micro and medium-sized enterprises (SMMEs) in sub-Saharan Africa are FBs, although there is a lack of official statistics reporting the percentage of FBs in sub-Saharan Africa. Specifically, estimates suggest that approximately 90% of all business in Ghana are SMMEs and that these SMMEs employ approximately 70% of the country's labour force (Benzing & Chu, 2009; Government of Ghana, 2003; World Bank, 2006). Moreover, despite the large number of studies examining the MCS-strategy relationship, none focus on sub-Saharan Africa. Although Ghana is, economically, a relatively small country in sub-Saharan Africa, its economy is estimated to have grown by approximately 14.4% in 2011 due to relatively sound management, a competitive business environment, and sustained reductions in poverty levels (Central Intelligence Agency (CIA), 2012). Thus, in sub-Saharan Africa, Ghana is seen as a model country and a budding economic success story (Faruq & Yi, 2010). Ghana, therefore, provides an interesting setting for examining and comparing the MCS-strategy-performance relationships in FBs and NFBs in sub-Saharan Africa.

The study relies on Simons' (1995, 2000) levers of control framework, which posits that there are tensions between an organisation's need for creative innovation and the need for predictability to achieve predetermined goals and objectives, which need to be managed. The article examines how managing the tensions created through the use of MCS influences the implementation of business strategy. Simons (1995, 2000) classifies formal MCS into four categories – belief systems, boundary systems, diagnostic control systems (DCS) and interactive control systems (ICS). The belief and boundary systems are used to frame the strategic domain, while DCS and ICS are the feedback and performance measurement systems (PMS) used to elaborate and implement strategy (Bisbe & Otley, 2004). This study will focus on PMS and seek answers to the following questions in FBs and NFBs: (1) To what extent do FBs and NFBs use MCS feedback and performance measurement systems (DCS, ICS and the *Dynamic Tension* created as a result of the joint use of DCS and ICS) in their business operations and how does MCS contribute to the implementation of business strategy? (2) How do the effects of PMS of MCS on business strategy implementation differ between FBs and NFBs? (3) How does the mediating role of business strategy implementation in the relationship between the PMS of MCS and firm performance differ between FBs and NFBs? The relationships examined in this study are summarised in Fig. 1.

Using data from 50 FBs and 50 NFBs from Ghana, the major findings of the study reveal that while the effect of DCS on supporting the implementation of the cost leadership strategy is stronger for NFBs than FBs, the influence of ICS on supporting the implementation of the differentiation strategy is stronger for FBs than NFBs. The influence of the *Dynamic Tension* created by the joint use of DCS and ICS in supporting the implementation of the cost leadership and differentiation strategies is stronger for FBs than NFBs. The study further showed that the indirect effect of MCS (DCS, ICS, and *Dynamic Tension*) through business strategy (cost leadership and differentiation) on performance is stronger for FBs than NFBs. The findings also suggested a contingency approach in the use of MCS to implement business strategy. While DCS supports the implementation of cost- or efficiency-based business

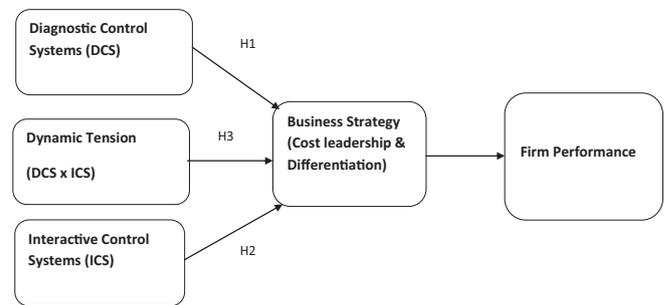


Fig. 1. Hypothesised research model. * H4 compares the indirect effects of Management Control Systems (DCS, ICS and DCS × ICS) on Firm Performance through Business Strategy (Cost Leadership & Differentiation) between FBs and NFBs.

strategies, ICS supports the execution of market-based or differentiation strategies.

The findings from this study contribute to the family business literature in several ways. First, this study is one of the few attempts to comprehensively examine the role of Simons' (1995, 2000) PMS on the implementation of business strategy and performance in the FB literature. Although, Moores and Mula (2000) studied the management and control systems of family businesses in Australia, they focused on ascertaining the existence of Ouchi's (1979) classification of bureaucratic and clan controls in FBs. Moreover, Moores and Mula's (2000) study failed to link the controls to strategy or performance. Second, this is the first study to examine formal MCS-strategy-performance issues in FBs in a transition economy in a sub-Saharan African environment, which is characterised by institutional voids (Khanna & Palepu, 1997), high levels of market imperfections but also by increased competition, the implementation of economic reforms and deregulation of state-owned enterprises, and collectivistic cultural orientations. Third, the findings provide support for the view that the PMS proposed by Simons (1995, 2000) could be used by both NFBs and FBs as tools to implement business strategies; this in turn enables FBs to develop a competitive advantage vis-à-vis NFBs. By leveraging their unique characteristics of flexibility, maternalism, generosity, long-lasting relationships and close and emotional ties to employees to create a dedicated, motivated and committed workforce, FBs are able to use MCS to develop greater competitive advantages than NFBs. Fourth, this study contributes to the limited body of empirical research on the effect of Simons' (1995, 2000) concept of *Dynamic Tension* on strategy and performance. The findings corroborate the view that DCS and ICS work simultaneously and jointly to generate *Dynamic Tension* through their balanced use and demonstrate how the notions of competition and complementarity could support the implementation of intended strategy while simultaneously facilitating the emergence of new strategies (Henri, 2006; Mundy, 2010). This finding was found to be true for FBs but not for NFBs in Ghana. Fifth, the finding indicates that there is a contingency perspective in the use of control systems to implement business strategy (Chenhall, 2003). While the diagnostic use of PMS supports the implementation of an efficiency-based strategy, a PMS used interactively supports the implementation of a market-based or differentiation-based strategy. However, for FBs, a MCS that exploits the *Dynamic Tension* from the joint use of DCS and ICS plays a significant role in supporting the implementation of both efficiency-based and market-based strategies to enhance performance.

The remainder of the article is organised as follows. Sections 2 and 3 present the theoretical background and hypotheses. Section 4 describes the methodology and research design. Section 5 discusses the results, while Sections 6 and 7 present the discussion and conclusion.

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