



Towards horizontal archetypes of management control: a transaction cost economics perspective

Ed G. J. Vosselman*

This paper offers an economic explanation of an observed tendency to adopt and (re)design horizontal management control systems. To this end, the paper first describes generic vertical and horizontal management control templates: archetypes of management control. These archetypes draw on bureaucratic control mechanisms and some of them also on a market mechanism. Next, the observed tendency towards horizontalization is explained by making a differential transaction cost economics analysis of the movement towards horizontal archetypes of management control. This is not with the intention to generate *general* normative statements nor to generate a *general* positive economic theory of choices in management control systems design. Rather, the paper aims at acquiring a richer understanding of the economics of the horizontal direction into which management control systems are developing. In particular, it throws some light on the importance of various transactional and behavioural features for an efficient adoption and tailor-made design of management control systems in practice.

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1. Introduction

Inside organizations there is a tendency to concentrate the execution, and to centralize the task control, of certain activities and services. Although this tendency is not limited to facilitating and supporting activities, it is here that this tendency most clearly manifests itself. Many supporting and facilitating activities like housing, IT, cleaning services, maintenance and security tend to be separated from the core activities of other organizational units and to be concentrated in so-called 'shared service centres'. The tendency can also be seen in the context of accounting activities, where some organizations are now considering or have actually realized

*Professor of Accounting and Control, Erasmus University, Faculty of Economics, Burgemeester Oudlaan 50, 3062 PA Rotterdam, The Netherlands. E-mail: vosselman@few.eur.nl

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the concentration and centralization of certain accounting activities into accounting houses. Driven by the need for economies of scale and/or the need to create space for flexibility, quality, speed and punctuality in the firm's core business processes, and supported by developments in information and communication technology the execution and/or control of these activities is being shifted to a central level. In some cases the centralization process is only a stage in a process that ends with outsourcing the activities. Of course, outsourcing involves the transformation from a relationship within the boundaries of an organization into a relationship in a market.

Processes of concentration and centralization encompass changes in the organization's structure as well as changes in management control relationships. In order to enhance the efficiency and effectiveness of activities in shared service centres, management control relationships will have to be (re)shaped: who will be influencing the performance of the centre and what mechanisms and devices will be used to manage performance from outside the unit? In many cases centralization keeps pace with the adoption and implementation of horizontal management control systems: client-supplier relationships. This is consistent with Otley's observation that in many organizations, systems of mutual accountability are emerging (Otley, 1994).

This paper concentrates, in particular, on management control change related to centralization. Assuming that in practice economic motives are rather dominant in starting a change process the paper will especially deal in some detail with the economics of centralization and the economics of the movement towards the adoption and implementation of horizontal management control relationships.

In order to set the scene, the following section contains a short case description. The description underlines the practical relevance of the issue in this paper by providing an insight into the relationships between centralization and change in management control systems. It is based on a case study at Leiden University, conducted in 1995. Documents were studied and several people within the University were interviewed. One of the interviewees was the University's controller, who was also head of the task force charged with drawing up a proposal for a new management control system for the facilities services. Drawing on the case study, section three contains a number of generic management control archetypes. Horizontal archetypes of management control are outlined in addition to a vertical one. In sections four and five the movement towards centralization and towards horizontal management control systems is explained and clarified by applying economic theory, especially new-institutional organizational economics. This is done in order to generate a richer understanding of the economics of centralizing the execution of facilities services and of horizontalizing management control. The analysis may confirm the rationality of the decisions made in practice, but it may also support some additional arguments that are neglected by professional practitioners, or it may even lead to contradictory conclusions. Finally, in section six some conclusions are drawn about theoretical as well as practical impacts. Furthermore, the limitations of a new institutional economics perspective are articulated.

2. Case description: setting the scene

During the years 1994 and 1995 Leiden University in the Netherlands was engaged in a process of restructuring the execution and task control of various facilities

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