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# The effect of service process type, business strategy and life cycle stage on bureaucratic MCS in service organizations

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## Abstract

This study uses the survey method to investigate the influence of several contingent variables on the design of MCS in service organizations. MCS was conceptualized in terms of five dimensions: action/results controls, formal/informal controls, tight/loose controls, restricted/flexible controls, and impersonal/interpersonal controls to form a composite measure of the degree of MCS bureaucracy. The framework used in this study recognizes that the service process type, business strategy, and stage in the organizational life cycle influence the choice of MCS design within an organization. Questionnaires were administered to financial controllers of service organizations operating in Australia. Using *t* tests and multiple regression analysis, the results indicated that (1) mass service, mature and cost leader firms place a greater emphasis on more bureaucratic forms of MCS, compared to professional service, growth and differentiator firms, and (2) service process type, organizational life cycle stage, and business strategies have a significant influence on the design of a firm's MCS.

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## 1. Introduction

Despite the dominance of the service sector in most economies, compared to the manufacturing sector, there has been a limited research to systematically investigate the design of management control

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systems (MCSs) in service organizations (Shields, 1997; Drury, 1998; Sharma, 2002; Chenhall, 2003). The literature frequently cites the distinguishing characteristics of “pure” services from tangible goods produced in manufacturing firms as posing important implications for control in service organizations (e.g., Brignall et al., 1991; Modell, 1998), as they may prevent the direct applicability of management accounting systems and MCS established in the manufacturing sector, to the service sector (Dearden, 1978).

The unique characteristics of pure services include (1) intangibility of services, (2) inseparability of production from consumption, where customers are also involved in the production of services, (3) perishability of services, where services not consumed are lost, and (4) heterogeneity in service products, where services provided by the same person may differ between customers or differ at different times (Fitzgerald et al., 1991; Hope and Muhlemann, 1997; McColl et al., 1998). An important feature of service firms relevant to the design of MCS is the significant human participation in the “production process”.

Several case studies have demonstrated the process and design of MCS in service organizations and it has been suggested that the role of MCS expounded in manufacturing organizations requires a re-orientation to be effectively implemented within service organisations (e.g., Abernethy and Stoelwinder, 1991, 1995). These studies imply that service organizations are somehow unique, requiring special attention. Nevertheless, Sharma (2002) noted that much of the research undertaken in the service sector has focused on not-for-profit organizations. Thus, the need to re-orientate MCS suggested by these studies may stem from differences in the nature of operations and the organizational context between manufacturing and non-profit service firms, rather than from differences in the characteristics of service versus manufacturing organizations. The shared goal of profitability would make profit-oriented service organizations more like manufacturing firms, and more likely to implement and utilize MCS (Sharma, 2002). This suggests that it is possible to approach studies of MCS design in service organizations based on this common ground, rather than merely focusing on their uniqueness.

Prior studies of MCS in service organizations have tended to be case studies and have focused on organizations in a single industry (e.g., the health care industry or communications industry) or on a single organization (see, e.g., Marginson, 1999). As service industries span retail, health care, education, hospitality and professional services, limited generalizations can be drawn from such a narrow focus. Thus, it is hardly surprising that our knowledge of MCS in specific service industries and contexts is limited (Modell, 1996, 1998).

The purpose of this paper is to add to the limited body of knowledge of the design of MCS in service firms. Specifically, this paper will adopt a contingency approach and use empirical analysis to identify the influence of specific organisational variables on the design of MCS in service organizations across several industries. The contingency approach has been subject to some criticism, particularly in relation to variable definition and measurement and its reliance on traditional functionalist theories rather than consideration of interpretative and critical views (see, e.g., Covaleski et al., 1996; Hartmann and Moers, 1999). However, it has also been claimed that by drawing on concepts and ideas from organizational theory, a contingency approach has much to offer in providing insights into MCS in contemporary settings, particular in service firms where there has been limited research (Chenhall, 2003).

The remainder of this paper is organised as follows. First, the conceptual framework that forms the focus for this study is presented, followed by formulation of hypotheses. In the following section, the research method is outlined, detailing the sample and measurement of variables. The results of the study are then provided. The findings of the study are then reviewed and major themes are discussed. In the final section, the limitations of the study are presented and areas for future research are suggested.

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