

Management control systems as a package—Opportunities, challenges and research directions

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Abstract

There has been very little explicit theoretical and empirical research on the concept of management control systems (MCS) as a package despite the existence of the idea in management accounting literature for decades. In this editorial we discuss a range of ways researchers have defined MCS and the problems this has created. We provide a new typology for MCS structured around five groups: planning, cybernetic, reward and compensation, administrative and cultural controls. The typology is based on the distinction between decision-making and control and addresses those controls managers use to direct employee behaviour. We discuss the conclusions of the articles included within this special issue and provide ideas for further research.

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1. Why study management control systems as a package?

The idea of management control systems (MCS) operating as a package¹ has existed for over 30 years (Otley, 1980) and there have been regular calls to study the phenomenon (Chenhall, 2003; Dent, 1990; Fisher, 1998; Flamholtz et al., 1985; Otley, 1980). Despite this there has been little explicit theorizing or empirical research on the topic (Abernethy and Chua, 1996; Alvesson and Karreman, 2004; Simons, 1995).

There are a number of reasons why studying the MCS package phenomenon is important. Firstly, MCS do not operate in isolation. While much of the MCS research considers single themes or practices that are seemingly unconnected from each other and the context in which they operate, these invariably sit within a broader control system (Chenhall, 2003). This has several implications. For one, Fisher (1998) argued that if the links between various MCS are not recognized, then the way in which the considered MCS components relate to studied contingent variables will lead to erroneous conclusions. This idea is supported by Chenhall (2003) who warned that studying specific MCS elements in isolation has “the potential for serious model under specification” (p. 131). This may provide the underlying reason

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¹ As a general conception, a management control systems (MCS) package is a collection or set of controls and control systems. The individual control systems may be more traditional accounting controls such as budgets and financial measures, or administrative controls, for example organisation structure and governance systems, along with more socially based controls such as values and culture. Organisations may have numerous controls present, and they all may be used to some extent to align individual's activities with organisational goals (Abernethy and Chua, 1996; Alvesson and Karreman, 2004; Flamholtz et al., 1985; Otley, 1980; Simons, 1995).

for Dent's (1990) assessment of MCS contingency research when he argued that while some relationships have been found between some contingency variables and MCS, on the whole the "relationships are weak and the conclusions are fragmentary" (p. 10). In his more recent examination of contingency research, Chenhall (2003) supported Dent's (1990) point and argued that the variables considered have not provided consistent explanations of the kind of MCS that fit organisation types or drive performance.

A second and related point is one that we argued in our call for papers for this special issue. Accounting researchers have spent much time studying innovations in practice, such as activity-based costing/management (ABC/M), the balanced scorecard (BSC), value-based management (VBM), rolling forecasting, and target costing, with the goal of explaining their development, adoption, use and impact. However, studying these systems individually may influence any conclusions we can draw, if the use and impact of a new MCS element is related to the functioning of the existing broader MCS package.

Thirdly, a major focus of MCS theory is how to design MCS in order to produce the desired outcomes. While much management accounting research has studied accounting-based controls and this is typically focussed on formal systems, there is still limited understanding of the impact of other types of control (such as administrative or cultural) and whether/how they complement or substitute for each other in different contexts. Gaining a broader understanding of MCS as a package may facilitate the development of better theory of how to design a range of controls to support organisational objectives, control activities, and drive organisational performance.

By taking a broader package approach to the study of MCS, researchers will be able to develop better theory of the real impact of innovations such as the BSC, and how to design MCS packages. However, this raises questions about the kinds of challenges which exist in the study of MCS as a package.

2. Challenges in studying MCS as a package

While there are good reasons to study MCS as a package there are a range of challenges in doing so; three of which will be explained in this editorial. The first involves the difficulty of clearly defining the concept of MCS. This includes making a distinction between MCS and information/decision-support systems. Furthermore, if we focus on control rather than decision-support, what is it that MCS is supposed to control; is it human behaviour or artefacts, such as cash or material flows; and at what level, the organisation, business unit, management, or individual?

When the definition parameters of MCS are set, the second issue arises of what conceptually constitutes an MCS package; what is included, what is left out, and why? An analytical conception, which provides a sufficiently broad yet parsimonious approach, is required to study the empirical phenomenon. In addition, while studies have looked at control systems individually and at times in combination, the challenge is to understand how all the systems in an MCS package operate as an inter-related whole. Abernethy and Brownell (1997) captured this issue in stating: "It is clear that organisations rely on combinations of control mechanisms in any given setting, yet virtually nothing is known about how the effects of any one control are governed by the level of simultaneous reliance on other forms" (p. 246).

Thirdly, there are challenges in empirically studying an MCS package as they are often very large and complex systems. This creates difficulties in how field and/or case study researchers gather and make sense of the complexity that exists in each of the elements of the MCS package and then report their findings in journal articles at a sufficient level of abstraction to make the reading comprehensible. Furthermore, there are problems with how survey researchers test the form of these large and complex packages across organisations so that systematic relationships can be established. This includes the difficulty of developing survey instruments to capture the underlying phenomena in a meaningful way as well as gathering adequately large samples.

The purpose of this editorial is to enlighten the abovementioned issues and lay a foundation to enable researchers to continue developing research on MCS. The first issue to be addressed is what control is, and what is meant by MCS? We will then introduce what we consider to be a comprehensive but parsimonious typology of an MCS package which may be used to inform empirical work. Next we will discuss the four papers in this special issue including their overall conclusions. Finally, the implications of these discussions for further research will be outlined.

3. MCS definition

The first challenge in undertaking research on MCS packages is the difficulty of defining what is meant by MCS (Fisher, 1998). A number of definitions and descriptions of MCS exist; some of which contain overlaps, while others are

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