



The design and use of performance management systems: An extended framework for analysis

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ABSTRACT

Issues in the area of performance management and management control systems are typically complex and intertwined, but research tends to be based on simplified and partial settings. Simplification has made the work easier to carry out, but it has come at the price of increased ambiguity and conflicting findings from different studies. To help mitigate these issues, this paper puts forward the performance management systems framework as a research tool for describing the structure and operation of performance management systems (PMSs) in a more holistic manner. The framework was developed from the relevant literature and from our observations and experience. In particular, it elaborates the 5 questions of Otley's [Otley, D., 1999. Performance management: a framework for management control systems research. *Management Accounting Research* 10, 363–382] performance management framework into 12 questions and integrates aspects of Simons' levers of control framework.

Anecdotal evidence suggests that the extended framework provides a useful research tool for those wishing to study the design and operation of performance management systems by providing a template to help describe the key aspects of such systems. It allows an holistic overview to be taken while making this a feasible task. The paper uses material from two field studies to illustrate how the framework can be used to provide an overview of the major performance management issues within an organization.

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1. Introduction

The literature in the area of performance management systems (PMSs) and management control systems (MCSs) increasingly recognises the need for research to be based on more coherent theoretical foundations (Chenhall, 2003; Covaleski et al., 2003). Researchers suggest that theory be used to contextualise findings and to provide a more systematic development of knowledge in the field (Chapman, 1997). Others note that the difficulty in making

significant progress in the field partially derives from the compartmentalised approach typically followed by empirical research (Chenhall, 2003; Covaleski et al., 2003). There has been a tendency to focus only on specific aspects of control systems, as opposed to adopting a more comprehensive and integrated approach (Chenhall, 2003; Dent, 1990; Malmi and Brown, 2008). Although this may be due to access or time limitations, or to the difficulty of generating and managing such complex datasets, the lack of a more complete description of the totality of a control system contributes to spurious findings, ambiguity, and potentially to conflicting results (Chenhall, 2003). Others have maintained that our understanding of MCSs will remain 'piecemeal' for as long empirical research continues to ignore the interdependency between different control mechanisms operating at the same time in the same orga-

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nization (Abernethy and Brownell, 1997). Therefore, we argue that research would benefit from a framework that provides a broad view of the key aspects of a MCS and that allows researchers to obtain an holistic overview in as efficient way as possible. This paper proposes such a framework.

It is organized as follows. The following section outlines some of the frameworks found in the literature, placing particular emphasis on the two that our study builds upon. Section 3 puts forward the performance management systems (PMSs) framework itself, with its theoretical development being elaborated in Section 4. This is followed by a discussion on the use of the framework and a conclusion. Two applications of the framework to specific organizations are briefly presented in Appendix A.

2. Management control systems

Much of the early literature on this topic has been categorized under the heading of management control systems, following the seminal work of Robert Anthony (1965). However, in our view, this has become a more restrictive term than was the original intention and we prefer to use the more general descriptor of performance management systems (PMSs) to capture an holistic approach to the management and control of organizational performance. We see this term as including all aspects of organizational control, including those included under the heading of management control systems.

MCSs have been conceptualised in various ways. The classic view, outlined in Anthony's (1965) work, divided the realm of control between strategic planning, management control, and operational control. He defined management control as "the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives" (p. 17). However, this approach resulted in a disconnect between MCS and strategic planning and between MCS and operational control (Langfield-Smith, 2007; Otley, 1999). Further, it encouraged a narrow view of MCSs that falls short of capturing the richness of issues and relationships implicated in MCS design and use. In particular, it concentrated on formal (and usually accounting) controls without setting them in their wider context.

A number of MCS definitions have been proposed in more recent years (for a review and discussion see Malmi and Brown (2008)). While Simons (1995) views MCSs as the means used by senior managers to successfully implement their intended strategies, others have defined MCS as the systematic use of management accounting in conjunction with other forms of control such as personal or cultural controls to achieve some goal (Chenhall, 2003). A broader notion of MCSs encompasses the entire strategic process, that is, it includes both strategic formulation (Mintzberg, 1978) and strategic implementation (Merchant and Otley, 2007).

We acknowledge that the concept of PMSs is a difficult one to establish. However, we view PMSs as the evolving formal and informal mechanisms, processes, systems, and networks used by organizations for conveying the key objectives and goals elicited by management, for assisting

the strategic process and ongoing management through analysis, planning, measurement, control, rewarding, and broadly managing performance, and for supporting and facilitating organizational learning and change. Hence we use the term performance management system to encapsulate these more general processes, and our working definition of a PMS includes both the formal mechanisms, processes, systems, and networks used by organizations, and also the more subtle, yet important, informal controls that are used (Chenhall, 2003; Malmi and Brown, 2008). It is also based on the premise that key objectives and goals are set by managers at every level, but it does not assume that these objectives and goals are necessarily the ones that best serve the organization as a whole. This is consistent with Abernethy and Chua (1996), who follow the view that objectives are set by the "dominant organizational coalition" (p. 573) in that it is managers who are entrusted the responsibility of setting organizational objectives, taking into consideration the expectations of the relevant stakeholders. The definition views the PMSs as performing a supporting role for a broad range of managerial activities, including strategic processes – which involve strategic formulation and strategic implementation (Mintzberg et al., 2003; Pearce and Robinson, 2007) – and ongoing management. Also, through its learning and change facilitation role, a PMS can support or foster emergent strategies (Mintzberg, 1978).

We next discuss Otley's (1999) performance management framework and Simons' (1995) levers of control framework. These frameworks are examined more closely because both played a major role in the development of the extended framework.

2.1. Otley's (1999) performance management framework

Otley (1999) proposed an inductively generated framework for studying the operation of MCSs, drawing upon the extant body of knowledge in the field and on his research experience. In essence, the framework highlights five central issues which he argues need to be considered as part of the process of developing a coherent structure for performance management systems. The framework was intended to aid the description of MCSs and to be a first step towards developing a more comprehensive framework.

The first area addressed by his framework relates to the identification of the key organizational objectives and the processes and methods involved in assessing the level of achievement in each of these objectives. The second area relates to the process of formulating and implementing strategies and plans, as well as the performance measurement and evaluation processes associated with their implementation. The third area relates the process of setting performance targets and the levels at which such targets are set. The fourth area draws attention to rewards systems used by organizations and to the implications of achieving or failing to achieve performance targets. The final key area concerns the types of information flows required to provide adequate monitoring of performance and to support learning.

A number of studies have drawn on Otley's (1999) framework. Ferreira (2002) used the framework to struc-

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