



Creating dynamic tensions through a balanced use of management control systems

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A B S T R A C T

This paper explores how organisations balance controlling and enabling uses of management control systems (MCS), and how this balance facilitates the creation of dynamic tensions and unique organisational capabilities. By employing Simons' (1995) levers of control framework in a case study setting, the paper investigates the challenges faced by senior managers when they use MCS simultaneously to direct and empower. The findings indicate a number of factors – internal consistency, logical progression, historical tendency, dominance, and suppression – that impact the capacity of organisations to balance different uses of MCS. The interactive lever of control also plays a significant role in achieving and sustaining a balance between controlling and enabling uses of MCS, and its impact on the other levers is seen to constitute a unique organisational capability in its own right. The findings from this study offer an elaboration of how dynamic tensions are created through managers' attempts to balance controlling and enabling uses of MCS.

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Introduction

Management control systems (MCS) have two complementary and interdependent roles. MCS are used to exert control over the attainment of organisational goals and also to enable employees to search for opportunities and solve problems (Ahrens & Chapman, 2004; Chenhall & Morris, 1995; Simons, 1995; Zimmerman, 2005). These competing roles necessitate a balance between taking actions congruent with the organisation's goals while also giving employees sufficient autonomy to make decisions (Roberts, 1990; Sprinkle, 2003).¹ This balance is determined by a match between problems faced by the organisation and the problem-solving abilities available (Speklé, 2001). When combined, controlling and enabling uses of MC create dynamic tensions that produce unique organisational capabilities and competitive advantages (Henri, 2006b; Widener,

2007). Accordingly, a greater understanding of how organisations balance these different uses in order to create dynamic tensions represents an important area of management control research.

The aims of this paper are to explore how organisations attempt to balance controlling and enabling uses of MCS, and how this balance facilitates the creation of dynamic tensions. A recent stream of literature has yielded valuable insights into the concept of dynamic tension, including how it arises from the inherent conflict between controlling and enabling uses (Marginson, 2002; Simons, 1995); how it influences unique organisational capabilities and performance (Henri, 2006b; Widener, 2007); and how organisations deal with challenges associated with its development and management (Frow, Marginson, & Ogden, 2005; Marginson, 2002). These studies consistently identify the critical role of balance in the creation of dynamic tension, but fall short of elaborating on its nature or on its relation to the creation of dynamic tension.

Organisations face difficulties in balancing different uses of MCS for a number of reasons. Managers are not always able to specify in advance what constitutes an optimal balance because they face a variety of complex

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¹ The literature also refers to this as the problem of 'loose-tight' controls (for example, Merchant, 1985; Van der Stede, 2001) or 'organic-mechanistic' (Chenhall & Morris, 1995).

decisions (Ahrens & Chapman, 2007; Speklé, 2001). In addition, the capacity of organisations to balance controlling and enabling uses of MCS is dependent on specific individual and organisational attributes. These include trust, autonomy, power relations, and professionalism, elements that are difficult to identify and replicate (Alvesson & Kärreman, 2004; Chenhall & Euske, 2007; Euske & Riccaboni, 1999; Frow et al., 2005; Marginson, 2002; Sprinkle, Williamson, & Upton, 2008). Managers also have a natural tendency to use MCS coercively rather than in ways that give employees autonomy in carrying out their activities (Ahrens & Chapman, 2004; Wouters & Wilderom, 2008). An emphasis on coercive use is problematic because it restricts the potential for novel and innovative behaviours that can lead to improvements in long-term performance (Armstrong, 2002; Seal, 2001). On the other hand, enabling use is potentially harmful to organisations that operate in stable environments, because their control processes require established and effective ways of operating (Abernethy & Brownell, 1999; Wouters & Wilderom, 2008). An organisation's inability to balance different uses of MCS is associated with slower decision-making, wasted resources, instability and, ultimately, lower performance (Bisbe, Batista-Foguet, & Chenhall, 2006; Henri, 2006b).

Systematic research into the natures of dynamic tension and balance has been hindered by a unidimensional view of the use of control systems commonly taken by traditional approaches. For example, studies informed by agency theory emphasise the use of coercive forms of control in order to minimise the potential for opportunism and moral hazard (Abernethy & Chua, 1996). Equally, studies based on theories of labour processes regard the enabling use of MCS as another way of implementing control over employees via increased transparency of costs (for example, Armstrong, 2002; Ezzamel, Lilley, & Willmott, 2004; Hopper & Armstrong, 1991). These perspectives explain the competing demands of controlling and enabling use as inevitable but unproductive because they represent wasted effort. A similar emphasis on the controlling use of MCS is adopted by studies that investigate managers' reliance on accounting performance measures (Hartmann, 2000). Contingency-based studies are equally problematic because they take a static and fragmented approach that underspecifies the interrelations between different roles of MCS (Fisher, 1995; Selto, Renner, & Young, 1995). Furthermore, these studies regard managers as passive participants with limited choice in how they use MCS to achieve the organisation's goals, and whose collective behaviour can be optimally designed for any given set of circumstances (Chenhall, 2003). In the same way, studies drawing on resource dependency theories ignore issues relating to power and opportunism, and thus provide limited guidance on how a balance between coercive and enabling uses is influenced by managerial choice and self-interest (Abernethy & Chua, 1996).

The current study investigates the concept of balance by drawing on Simons' (1995) levers of control (LOC) framework. The LOC framework is explicitly concerned with the dual use of MCS to facilitate creativity while simultaneously providing constraints on employees'

behaviour. The concept of balance is a central but largely implicit element in the framework, and its role in the development of dynamic tensions remains under-researched. The findings of the current study are based on qualitative data collected from senior managers in a large financial services organisation. The LOC framework is employed to explore how these managers attempt to balance controlling and enabling uses of MCS in order to generate the dynamic tensions that contribute to the organisation's capabilities.

The paper is organised as follows. The next section presents the conceptual framework on which the study is based. This is followed by a description of the study design and method. The findings are then presented, together with a discussion. Concluding comments are provided in the final section.

The levers of control framework

The controlling role of MCS is associated with predictability, efficiency, formality, and the importance of meeting short-term targets while enabling use of MCS relates to spontaneity, transparency, adaptation, information-sharing, enterprise, and adaptability (Ahrens & Chapman, 2004; Davila, 2000; Henri, 2006a; Van der Stede, 2001; Wouters & Wilderom, 2008). Controlling use aims to mitigate problems of information asymmetry, whereas enabling use seeks to reduce uncertainty and improve decision-making (Sprinkle, 2003). These two uses can be conceptualised as the difference between *ex post* (decision-influencing) and *ex ante* (decision-facilitating) (Zimmerman, 2005).

The LOC framework is a useful analytical tool to explore the concepts of dynamic tension and balance because it is concerned with different uses of MCS rather than their technologies, structure, existence, or design.² Empirical studies in both the management control and management literatures have employed the framework to explain how organisations use their MCS to encourage innovation and learning while simultaneously exerting control over how goals are achieved (for example, Abernethy & Brownell, 1999; Bisbe & Otley, 2004; Bonner, Ruckert, & Walker, 2002; Bruining, Bonnet, & Wright, 2004; Marginson, 2002; Tuomela, 2005). The framework has been used to investigate how organisations leverage their MCS through four key processes – belief, boundaries, diagnostic, and interactive systems – in order to implement business strategies. Together these processes allow experimentation and creativity to flourish, while at the same time providing constraints on employees' behaviour (Simons, 1995).

The framework can be explained as follows. *Beliefs* and values are incorporated into MCS in order to secure commitment towards goals and to inspire employees in their search for opportunities and solutions (Marginson, 2002). Belief systems are an explicit set of organisational definitions that communicate formally the organisation's basic

² MCS design is not an explicit consideration of the LOC framework, but enabling use relies on the underlying design principles of repair, internal transparency, global transparency, and flexibility (Ahrens and Chapman; 2004).

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