



The moderating effect of organisational life cycle stages on the association between the interactive and diagnostic approaches to using controls with organisational performance[☆]

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ABSTRACT

This study examines the moderating effect of organisational life cycle (OLC) stages on the association between the approach to using controls (interactive versus diagnostic) with organisational performance. Analysis is conducted in respect to Miller and Friesen's (1984) organisational life cycle (OLC) stages (birth, growth, maturity, and revival). Data were collected by a survey questionnaire from a random sample of 343 General Managers in Australian manufacturing business units. The results indicate that the interactive approach was positively (negatively) associated with organisational performance in the growth (revival) stage. The use of the diagnostic approach was positively (negatively) associated with organisational performance in the revival (maturity) stage. The study contributes to the literature linking management control systems and OLC stages by providing knowledge regarding the suitability of interactive and diagnostic approaches to using controls for business units within specific OLC stages.

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1. Introduction

While a significant body of management control system (MCS) literature has focused on the examination of the existence, characteristics and/or relative importance of controls, less emphasis has been placed on examining the manner in which controls are used (Abernethy et al., 2010; Ferreira and Otley, 2009) and the subsequent impact

on organisational performance. In assessing the impact of MCSs on performance, contingency theory suggests that managers seek to attain a fit between MCSs and contextual factors within organisations to achieve superior performance (Chenhall, 2003; Govindarajan and Gupta, 1985; Langfield-Smith, 1997). Gerdin (2005) suggests that there is a gap in the MCS literature where the influence of multiple contingent factors on MCSs is investigated simultaneously. Similarly, Drazin and Van de Ven (1985) suggest that associations can be better understood if multiple contingent variables are analysed simultaneously.³

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³ This argument is in line with the configuration approach in the contingency research literature which maintains that multiple contingent variables should be examined simultaneously in order to provide a more

Therefore, in line with [Auzair and Langfield-Smith \(2005\)](#) who argue that an effective MCS occurs as a result of the simultaneous consideration of multiple contingency variables, this study examines the association between the approaches to using controls (the interactive and diagnostic use of controls) and organisational performance within organisational life cycle (OLC) stages. OLC stages reflect the various stages of the development of organisations with each stage reflecting the integral complementarities identified following the simultaneous consideration of multiple contingent variables ([Miller and Friesen, 1984](#)). [Miller and Friesen \(1984\)](#) developed a dynamic form of configuration by classifying organisations into different development stages, based on the simultaneous consideration of four contingent variables: organisational situation, strategy, structure and decision-making style. These development stages were labelled OLC stages, and include the birth, growth, maturity, revival and decline stages.⁴

In focusing on the manner in which controls are used, [Ferreira \(2002\)](#) suggests that the approach to using controls plays a more significant role in organisational performance than the design of controls. [Abernethy et al. \(2010\)](#) argues that what differentiates one control from another is not their technical characteristics but the way in which management use the controls. Similarly, [Langfield-Smith \(1997\)](#) reports that it is not sufficient to merely investigate the existence of controls without examining how they are used.

A limited number of studies have examined how approaches to using controls affect organisational performance. These studies have predominantly focused on indirect associations between the approaches to using controls and organisational performance ([Bisbe and Otle, 2004](#); [Henri, 2006](#); [Widener, 2007](#)). For instance, [Henri \(2006\)](#) examined how approaches to using controls indirectly affected organisational performance via four capabilities (i.e. market orientation, entrepreneurship, innovativeness and organisational learning). Similarly, [Widener \(2007\)](#) and [Bisbe and Otle \(2004\)](#) examined the indirect effect of approaches to using controls on organisational performance through organisations' orientation to learning and management attention, and product innovation respectively.

However, there is limited theoretical development and empirical analysis concerning the direct association between the use of controls and organisational performance ([Hofmann et al., 2012](#); [Sakka et al., 2013](#)). In the context of the use of budgets, [Hofmann et al. \(2012\)](#) reported that the 'interactive use of budgets has a significant negative influence on financial performance, whereas the diagnostic use has a positive effect' (p. 173). [Sakka et al. \(2013\)](#) reported that the interactive (diagnostic) use of MCSs increased project performance when task uncertainty was high (low), while the use of the interactive

approach had a negative impact on performance when task uncertainty was low.

Therefore, this study is motivated to contribute to the limited empirical research examining the direct association between the interactive and diagnostic approaches⁵ to using controls and organisational performance. The study also aims to contribute to the literature by exploring these associations within organisational life cycle (OLC) stages. While OLC stages have been extensively examined in the organisational literature, only a limited number of studies have investigated the association between MCSs and OLC stages in the MCS literature ([Auzair and Langfield-Smith, 2005](#); [Davila, 2005](#); [Kallunki and Silvola, 2008](#); [Kober, 2010](#); [Moores and Yuen, 2001](#); [Silvola, 2008](#)). This study therefore aims to contribute to the literature by examining the association between the approach to using controls and organisational performance within four specific OLC stages of [Miller and Friesen's \(1984\)](#) model (birth, growth, maturity, and revival). Specifically, the study proposes that the OLC stage will moderate the association between the approaches to using controls with organisational performance.

The remainder of this paper is structured as follows. The next section discusses the literature on the approaches to using controls, and develops relevant hypotheses in respect to the effect of the moderation of OLC stages on the association between the diagnostic and interactive use of controls with organisational performance. Hypotheses are subsequently formulated in respect to the association between the use of controls and organisational performance for each OLC stage. This is followed by a discussion of the method used to collect data and a description of the measurement of the variables. The Results section provides the results of the data analysis and a discussion of the results. Finally, a discussion of the contributions, practical implications, limitations of the study and insights for future research are presented in Section 5.

2. Theory and hypotheses development

2.1. Approaches to using controls

This study adopts [Simons' \(1995\)](#) framework of control levers including the interactive and diagnostic approaches to using controls which have been widely used in recent MCS studies ([Abernethy and Brownell, 1999](#); [Bisbe and Otle, 2004](#); [Bobe and Taylor, 2010](#); [Davila, 2000](#); [Ferreira and Otle, 2009](#); [Henri, 2006](#); [Kober et al., 2007](#)). While [Simon's \(1995\)](#) framework covers four levers of controls (belief, boundary, interactive, diagnostic), most studies examining the approach to using controls have focused on the interactive and diagnostic levers ([Abernethy and Brownell, 1999](#); [Bisbe and Otle, 2004](#); [Bobe and Taylor, 2010](#); [Davila, 2000](#); [Ferreira and Otle, 2009](#); [Henri, 2006](#);

holistic understanding of organisations and their environment ([Gerdin and Greve, 2004](#)).

⁴ The decline stage is not included in the current study as previous studies ([Silvola, 2008](#); [Kallunki and Silvola, 2008](#); [Auzair and Langfield-Smith, 2005](#)) have found that it is difficult to obtain data from decline stage organisations.

⁵ The interactive approach here refers to a system which emphasizes face-to-face communications and allows managers to personally involve themselves in the decision activities of subordinates, while the diagnostic approach is identified as a system that allows organisational outcomes to be monitored and deviations from preset standards of performance to be corrected.

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