

Operation of management control practices as a package—A case study on control system variety in a growth firm context

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Abstract

This empirical case study examines the operation of management control practices as a package in a growth firm context by paying particular attention to the couplings among cultural, personnel, action and results controls. The analysis focuses on two different management control packages in the face of similar contingencies at different points of time. The paper argues that the functionality of a control package depends on internal consistency, specifically on the reciprocal linkages of design and use between a primary mode of control and other control elements. Moreover, it argues that control package variety is driven by the way in which the management responds to functional demands. Two different control packages are considered equifinal to the extent of limited operational complexity, whereas an accounting-centric control package is also sufficient in the face of increasing levels of operational complexity.

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1. Introduction

This empirical case study examines the operation of management control practices as a package in a growth firm context. While it has been acknowledged that ‘soft’ and informal modes of control typically characterize small firms (e.g. Bruns and Waterhouse, 1975; Merchant, 1981; Flamholtz, 1983; Chenhall, 2003; Merchant and Van der Stede, 2007), an increasing body of literature now suggests that growth renders management control systems (MCS), especially management accounting systems (MAS), more formal (Granlund and Taipaleenmäki, 2005; Moores and Yuen, 2001) and that formal MAS facilitate the growth of a firm (Davila and Foster, 2005; Sandino, 2007; Greiner, 1998). In the growth firm context, the more comprehensive management control package has been investigated to a limited extent. Lukka and Granlund (2003) have paid particular attention to organizational culture and Collier (2005) has focused on socialization practices as primary control mechanisms, whereas other studies have examined MAS and formal standard operating procedures (Granlund and Taipaleenmäki, 2005; Davila and Foster, 2005; Sandino, 2007).

The main thrust here is that an equally good final state can be achieved by various control system designs in the face of similar contingencies (Huikka, 2007; Merchant and Otley, 2007; Ferreira and Otley, 2005; Gerdin, 2005; Spekle, 2001; Otley, 1999; Chapman, 1997; Fisher, 1995). The need for coordination and control can be met by several alternative

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management control system designs (Gerdin, 2005). Contingency theory, as it builds on the assumption that variables are related to each other in a one-to-one manner, seeks optimal control system designs in specific circumstances at the cost of system variety (Spekle, 2001; Gerdin, 2005; Merchant and Van der Stede, 2006). Moreover, a long-held view in organizational design literature suggests that multiple means of control do not only complement each other but may also operate as substitutes (Galbraith, 1973; Mintzberg, 1983; Fisher, 1995; Abernethy and Chua, 1996; Ferreira and Otley, 2005; Huikku, 2007).

The potential for achieving the same final state by various configurations of control elements and systems in the face of similar contingencies is referred to as equifinality (Doty et al., 1993; Gresov and Drazin, 1997). In other words, organization designers have the latitude to decide about how to achieve organizational goals. This notion of equifinality has received only marginal attention in empirical management accounting and control studies. Two recent studies, however, suggest that equal control of activities can be achieved either by an informal control practice (Huikku, 2007) or by different formal control systems (Gerdin, 2005). This study goes further and adopts a holistic approach to management control and seeks to increase our understanding of the simultaneous operation of multiple control practices at the firm level and addresses the different, potentially equifinal, control configurations that they form.

The motivation for adopting a holistic perspective on management control stems from the fact that empirical management control studies have produced unclear findings and conflicting results because too few components have been studied at the cost of more comprehensive and integrative approaches (e.g. Merchant and Otley, 2007; Ferreira and Otley, 2005; Covaleski et al., 2003; Otley, 1999). It is not uncommon for management control studies to focus narrowly on formal systems, and specifically on MAS alone. Frequently, they also implicitly rest on cybernetic tradition and assume that management control elements operate as a system of planning, measurement, evaluation, and feedback for corrective actions. In this tradition, it has been argued that the linkages between formal MCS components, particularly the strength and coherence of the couplings, explain the functionality of a control system (Ferreira and Otley, 2005).

However, our knowledge about the interplay between accounting-based and more subjectively constructed control elements is in its infancy (Brown, 2005), although it is increasingly acknowledged that formal MAS are only part of a broader set of organizational controls (Flamholtz, 1983; Flamholtz et al., 1985; Abernethy and Chua, 1996; Alvesson and Kärreman, 2004; Collier, 2005; Merchant and Van der Stede, 2007; Merchant and Otley, 2007). Formal control systems, including MAS, are important mechanisms for reducing uncertainty, although they may have a modest effect in controlling actual work (Kärreman et al., 2002). On the other hand, formal control practices may significantly shape social order and provide organizational culture with material significance and meaning (Alvesson and Kärreman, 2004; Ahrens and Mollina, 2007). While the control elements may play multiple roles, subtle linkages seem to make them operate as a 'package' (Abernethy and Chua, 1996). To date, however, the couplings between control elements have been exposed to limited academic scrutiny (Brown, 2005; Brown et al., 2008). An examination of the couplings between MAS and other control elements therefore has the potential to contribute to our understanding of the features explaining the functionality of control packages, but also of the need for formal control practices such as MAS.

Many alternative conceptual frames are available for studying control elements as a package. Those by Otley (1999) and Ferreira and Otley (2005) are grounded in the systems view of organizations and are intended for examining combinations of formal control techniques, or at least of practices mediating information, thus ignoring more subtle ways of motivating and coordinating organizational behaviors. Also, Simons' (1995) framework focuses on formal, information-based control practices and is primarily applicable to investigation of how managers use rather than design MCS in an attempt to control strategy. Moreover, the organizational control framework of Flamholtz (1983, 2005), Flamholtz et al. (1985) seems to lack specificity although it is informative about the need to align organizational control elements. This study therefore draws primarily on Merchant's (1998), Merchant and Van der Stede (2007) object-of-control framework because it focuses on the spectrum of control practices, but still provides sufficient rigidity with the specific control objects of culture, personnel, action, and results.

Adopting a broad perspective on management control implies that organizational culture and structure are means rather than mere premises of control (cf. Flamholtz, 1983; Flamholtz et al., 1985; Merchant and Van der Stede, 2007). While the mere existence of any organizational culture and/or structure affects organizational behaviors, they are also objects of deliberate managerial actions. They are designed and changed to affect the behavior of organizational members in the attainment of organizational strategies and goals, irrespective of whether these strategies are ex ante planned or emergent (Mintzberg et al., 1998). Hence, the distinction between culture and cultural control is that the

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