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Management control systems, cooperation and performance in strategic supply relationships: A survey in the mines

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Abstract

This study investigates the relationships between two management control systems (performance measurement systems and socialisation processes) and cooperation and how that translates into relationship performance in strategic supply relationships. Drawing on the existing literature, we develop a theoretical model that shows the predicted relationships between our theoretical constructs. We test the theoretical model using partial least squares (PLS) on survey data collected from the Australian mining and resources sector. The results show direct relationships between performance measurement systems (PMS) and three dimensions of cooperation (information sharing, problem solving and willingness to adapt to changes) and an indirect relationship between PMS and restraint from use of power. Also, PMS is found to have a facilitating role in socialisation processes. The predicted association between socialisation processes and cooperation was partially supported. Also, three dimensions of cooperation (problem solving, willingness to adapt to changes and restraint from use of power) were found to be directly associated with relationship performance while information sharing had indirect relationship with performance. The results show a positive association between PMS and relationship performance. Finally, the results indicate that socialisation processes are indirectly related to performance. The results have important implications for both management control research and management control systems design.

Keywords: Management control systems; Performance; Performance measurement systems; Socialisation processes; Strategic supply relationships

1. Background

The importance of developing closer and longer-term relationships with key suppliers of goods and services has increasingly been recognised by practitioners and academics alike (Ring and Van de Ven,

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1992; Kelly, 1995; Domberger, 1996; Van der Meer-Kooistra and Vosselman, 2000; Langfield-Smith and Smith, 2003). Practically, there has been rapid growth in the number and significance of these relationships as organisations streamline their operations and contract out many of their functions (Quinn et al., 1990; Ring and Van de Ven, 1992; Lacity and Hirschheim, 1993a,b). Generally referred to as alliances or interfirm networks, the growing number of these relationships stems from a general perception that they enable organisations to secure valued resources and technology at potentially lower risk than corporate acquisitions (Ireland et al., 2002). Consequently, they have been accorded strategic importance in organisational decision making as such relationships now come into existence as part of the overall organisational strategy. Despite the potential to improve quality, flexibility and cost through alliances, there is documented evidence of alliance failure (Spekman and Isabella, 2000; Ireland et al., 2002; Langfield-Smith and Smith, 2003). The failure of alliances is partly attributed to inadequate level of cooperation among alliance members (Smith et al., 1995).

Many academic commentators consider cooperation to be crucial to the success of alliance relationships (Browning et al., 1995; McAllister, 1995; Chen et al., 1998). Cooperation, it is argued, maximises the mutual benefits of exchange participants by bringing about effective co-ordination of activities, pooling of knowledge and complementary strength, real-time resolution of conflicts and equitable distribution of benefits (Browning et al., 1995; Smith et al., 1995; Faerman et al., 2001). Though alliances are often referred to as cooperative relationships, cooperation should not be assumed to exist in all alliances simply because two or more organisations are engaged in a collective activity (Das and Teng, 1998). For Browning et al. (1995) conditions for cooperation need to be mobilised and enacted for cooperation to emerge.

Smith et al. (1995) argue that cooperation can emerge if adaptable arrangements are put in place to assure participants of continuity of the relationships, make clear the benefits of cooperation and to make them recognise the need to reciprocate for any benefits derived from the relationship. In his theory of organising and managerial processes, Barnard (1938, cited in Chen et al., 1998) argues that the inducement, facilitation and maintenance of cooperation constitute the essence of organising and managing. This suggests a role for management control systems (MCS) in fostering cooperation among exchange participants. A number of accounting researchers have long recognised the potential role of MCS in the management of alliance performance (Gietzmann, 1996; Hopwood, 1996; Tomkins, 2001) and some accounting research on alliances has started emerging (Frances and Garnsey, 1996; Van der Meer-Kooistra and Vosselman, 2000; Langfield-Smith and Smith, 2003; Dekker, 2004; Hakansson and Lind, 2004; Seal et al., 2004). Despite these efforts, our understanding of the link between MCS and cooperation remains underdeveloped. This paper aims to contribute to this emerging research by empirically examining the impact of MCS on cooperation among alliance participants. More specifically, the paper focuses on how cooperation is mobilised and enacted in one particular type of alliance—strategic supply relationships (SSRs).[1] The paper also examines the link between cooperation and SSRs performance.

To investigate how MCS are implicated in cooperation and performance in SSRs, we conducted a survey of supply relationships in the Australian mining and resources sector. We predicted that two MCS (performance measurement systems (PMS) and socialisation processes) will be positively associated with cooperation and the results provide support for direct positive relationships between PMS and three dimensions of cooperation (information sharing, problem solving and willingness to adapt to changes) and an indirect relationship between PMS and restraint from use of power (through information sharing).

[1] Strategic supply relationship is used loosely by practitioners to refer to longer-term buyer–supplier relationships that involve large amount of spend and are critical to the market performance of the parties.