Management Accounting Research 16 (2005) 21–57

Management Accounting Research

www.elsevier.com/locate/mar

Management control and controllership in new economy firms—a life cycle perspective

Markus Granlund*, Jani Taipaleenmäki

Department of Accounting and Finance, Turku School of Economics and Business Administration, Rehtorinpellonkatu 3, FIN-20500 Turku, Finland

Received 2 September 2002; accepted 14 September 2004

Abstract

The purpose of this study is to describe and explain current management control practices in new economy firms (NEFs). According to our definition, NEFs include businesses targeting at fast growth or already fast-growing firms that operate in the information and communications technology business and biotech (life sciences) industry, and are characterized by their R&D and knowledge intensity as well as venture capital finance. There seems to exist a true lack of empirical evidence of what the management control practices, their trends of development, as well as the challenges facing them in NEFs actually are. In order to fill this gap in the existing knowledge, we conducted an explorative multi-organization study of nine NEFs. Our theoretical basis is grounded on corporate life cycle models. Our observations indicate that there exist, in addition to certain similarities, notable differences between management accounting and control practices in NEFs and firms operating in traditional operating environments. The most notable findings relate in this regard to differences in temporal orientation (time pressure), leading many times to prioritizing planning over control. Also, the pressures to meet expectations placed by certain external parties (venture capitalists and later on by stock market players), to develop management control systems is characteristic of the new economy environment. We elaborate these findings further through a corporate life cycle analysis, and by linking them to issues of strategic management and corporate culture.

Keywords: New economy firms; Management control; Corporate life cycle

* Corresponding author. Tel.: +358 2 4814320; fax: +358 2 4814350.
E-mail addresses: markus.granlund@tukkk.fi (M. Granlund), jani.taipaleenmaki@tukkk.fi (J. Taipaleenmäki).

1044-5005/$ – see front matter © 2004 Elsevier Ltd. All rights reserved.
doi:10.1016/j.mar.2004.09.003

1. Motivation for the study

The purpose of this study is to describe and explain the current practices of management control in new economy firms (NEFs).[1] While the new economy and a NEF could possibly be defined in several ways (Holmberg et al., 2002; Bhimani, 2003), we define NEFs (currently) to include businesses targeting at fast growth or already fast-growing firms that operate in information and communications technology businesses and biotech (life sciences) industry. According to our definition, NEFs are also characterized by R&D and knowledge intensity as well as venture capital finance, particularly in the early stages of their life cycle. It is important to note that we do not refer here only to dot.coms or start-ups, etc. In our study, a NEF is neither about age nor size of the company. Mere e-commerce does not make a NEF either, but the turbulent, uncertain internal and external operating environment characterized by the above-mentioned features.

The new economy environment is also interesting in terms other than merely finding out how the recent discussions on modern accounting techniques or the changing role of the accounting function has been reflected in this largely unexplored environment (Cooper, 1996a, 1996b; Granlund and Lukka, 1998a; Siegel and Sorensen, 1999). This operating environment provides a fruitful context for studying, among other things, accounting change/stability issues in general, the effect of different contingency factors in accounting system development,[2] and the meaning of corporate life cycle stages in accounting system evolution. Studying these phenomena in a new environment creates prominent possibilities for learning new things about accounting and control in general, and thereby possibilities for contributing to existing knowledge of accounting, control, and controllership. Furthermore, Ditillo (2004) aptly notes that very little is known about the control practices of knowledge-intensive firms, and more generally, about control in firms that are experiencing high internal and external uncertainty. Our intention is to also fill this knowledge gap, at least to a certain extent.

NEFs have recently been in the spotlight of public writing, as many of them have faced severe financial troubles (see Clark and Neill, 2001). It can be argued that one reason for this has been the lack of proper management control systems. The problems that have become visible have made investors more cautious in their decision-making regarding financing NEFs. It can also be argued that there exist both external and corporate internal pressures (managerial needs for information to support control and decision-making) that foster the development of management control systems in NEFs. While there are professionally oriented writings where the need to develop suitable accounting systems for dot.com companies has been argued for, there seems to be only limited scientific evidence on the management control practices of NEFs. As far as we know, this study is one of the first attempts trying to fill this knowledge gap, and is therefore *explorative* by nature. The present study also represents a sort of ‘test’ for those claims and expectations according to which NEFs are applying or should apply such novel features as web-metrics in their cost analysis and performance measurement (cf. Williams, 2001; Zeller et al., 2001; Zeller and Kublank, 2002; see also Maccarone, 2002).

[1] Management control as such is a general term for a wide set of formal and informal approaches and techniques. This set includes, for example, formal organization, scheduling, formal meetings, and rules and procedures (cf. Lukka and Granlund, 2003). In the present study, we will mainly concentrate on a couple of its subsets: management accounting systems (MAS) and to some extent financial accounting systems, though not excluding, for instance, certain forms of cultural control.

[2] We are not applying contingency theory in this study as such, although we may refer to contingency variables as we try to explain the empirical observations. We are not committed to the assumptions surrounding contingency theory: the view of MAS as a ‘control package’, an object of effective design regarding different operating environments.