



Organizational culture and performance measurement systems

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Abstract

The aim of this study is to articulate and test the relationships between organizational culture and two attributes of performance measurement systems (PMS), namely the diversity of measurement and the nature of use. The results of a survey reveal that top managers of firms reflecting a flexibility dominant type tend to use more performance measures and to use PMS to focus organizational attention, support strategic decision-making and legitimate actions to a greater extent than top managers of firms reflecting a control dominant type.

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Introduction

The essence of management control systems (MCS) is to manage the tension between creative innovation and predictable goal achievement, and to balance the basic organizational dilemma between control and flexibility (Simons, 1995). Traditionally, MCS were considered to be formal control and feedback systems used to monitor organizational outcomes and correct deviations from preset standards of performance (Anthony, 1965; Hofstede, 1978). Now, the role of MCS to foster flexibility and support organizational change, innovation, and organizational learning

is also recognized (e.g. Atkinson, Waterhouse, & Wells, 1997; Kloot, 1997; Simons, 1990).

Control and flexibility represent two competing values which are considered to be attributes of organizational culture (Quinn, 1988; Quinn & Rohrbaugh, 1983). Control values refer to predictability, stability, formality, rigidity and conformity while flexibility values refer to spontaneity, change, openness, adaptability and responsiveness. Prior research in accounting has devoted much attention to the role of MCS to emphasize control and, to a lesser extent, to stress flexibility. Implicitly, this research has assumed that MCS were compatible with the combination of control and flexibility values reflected by the organizational culture. However, empirical evidence to support such relationships between MCS and organizational culture is sparse (Bhimani, 2003). This study aims to articulate and test the relationships

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between organizational culture and one component of MCS, namely performance measurement systems (PMS). Specifically, two attributes of PMS are examined: the diversity of measurement (i.e. broad set of financial and non-financial measures) and the nature of use (i.e. monitoring, attention focusing, strategic decision-making, legitimization).

To date, most of the empirical research has focused on issues related to the diversity of measurement and has overlooked the use of PMS as a whole. The diversity of measurement is important because it makes cause-and-effect relationships transparent and keeps managers from suboptimizing by improving one measure at the expense of others (Hoque & James, 2000). On the other hand, there is no single theory or clear agreement about the factors and contexts influencing the use of PMS (Ittner & Larcker, 2001). Hence, three research questions are investigated: (i) To what extent do control and flexibility values influence the measurement diversity? (ii) To what extent do control and flexibility values influence the nature of the use of PMS by top managers? (iii) To what extent is the relationship between control and flexibility values and the measurement diversity mediated by the use of PMS?

This paper extends previous management accounting literature using a contingency approach and prior research on PMS by examining the influence of organizational culture on the design and use of control systems. Control and flexibility is one pair of competing values which is recognized as a basic dilemma and a core issue in the organizational literature (e.g., Bourgeois & Eisenhardt, 1988; Leana & Barry, 2000; Lewis, 2000; Quinn & Rohrbaugh, 1983). The importance of order and control versus innovation and change is also at the heart of ongoing debates in management accounting (e.g., Atkinson et al., 1997; Ittner & Larcker, 2001; Johnson & Kaplan, 1987; Simons, 1995). The organizational culture has been overlooked in recent PMS studies even though numerous authors over the past decades have argued that organizational culture has had an important effect on MCS (e.g., Dent, 1991; Flamholtz, Das, & Tsui, 1985; Gordon &

Miller, 1976). Prior research on MCS and culture has focused mainly on national culture instead of organizational culture (e.g., Awasthi, Chow, & Wu, 1998; Chow, Lindquist, & Wu, 2001; Chow, Shields, & Wu, 1999; Der Stede, 2003). The studies which have examined organizational culture have mainly emphasized (i) budget as component of MCS (e.g., Dunk & Lysons, 1997; O'Connor, 1995), (ii) accounting firms and reporting practices (e.g., Chow, Harrison, MacKinnon, & Wu, 2002; Harrison & MacKinnon, 1986; Hood & Christine, 1991), and (iii) MCS or management accounting systems as a whole (e.g., Bhimani, 2003; Dent, 1991; Sunder, 2002). Hence, there is a need to examine PMS and organizational culture from a competing-values perspective, specifically the dilemma of control versus flexibility.

Survey data from 383 Canadian manufacturing firms, ANOVAs and structural equation models are used to provide empirical evidence. I find consistent evidence that organizational culture, from a control-flexibility values perspective, has a direct effect on the diversity of measurement and an indirect effect through the use of PMS. Specifically, top managers of firms reflecting a flexibility dominant type (hereafter flexibility value firms) tend to use PMS to focus organizational attention, support strategic decision-making and legitimate actions to a greater extent than top managers of firms reflecting a control dominant type (hereafter control value firms). Moreover, flexibility value firms are associated with a greater diversity of measurement than control value firms. These findings suggest that flexibility value firms tend to further integrate PMS in their organizational processes and use more performance indicators than control value firms.

The remainder of this paper is organized as follows. The next two sections define the main constructs, describe the theoretical model, and present a set of hypotheses. The following section presents the methodology, including the sample definition, data collection and measurement of constructs. The results of ANOVAs and structural equation models are presented, followed by a discussion of the results and the conclusion of this study.

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