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The relations among competition, delegation, management accounting systems change and performance: A path model

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ABSTRACT

This paper is concerned with an empirical investigation into the relations among competition, delegation, management accounting and control systems (MACS) change and organizational performance. It follows a standard contingency type path modeling to propose that intensity of competition causes firms to change their MACS and that this change enhances their performance. Delegation of authority is implicated in the model as competition encourages delegation, and this in turn causes the change in MACS, as well as enhancing performance directly. The results from a sample of Australian strategic business units indicate that (1) increased competition results in improved organizational performance indirectly through a greater number of changes in MACS, and (2) increased delegation of authority to lower level management leads to higher organizational performance. These results contribute to the management accounting change literature by providing empirical evidence that the relationship between competition and organizational performance is mediated by a decentralized organizational form and changes in MACS of the firm.

1. Introduction

In recent years, scholars have suggested that today's organizations need modern management accounting and control systems (MACS)[1] to adapt to the rapidly changing organizational and social environment (Abernethy & Bouwens, 2005; Abernethy & Lillis, 1995, 2001; Abernethy & Stoelwinder, 1991; Baines & Langfield-Smith, 2003; Cavalluzzo & Ittner, 2004; Emsley, Nevicky, & Harrison, 2006; Foster & Swensocxxn, 1997; Libby & Waterhouse, 1996; Shields, 1995; Shields & McEwen, 1996; Williams & Seaman, 2001). There is the view that modern MACS (such as activity-based costing, activity-based management, target costing, product life cycle costing, and balanced scorecard-type performance measures) produce relevant information that provides senior executives and other personnel with continuous signals as to what is most important in their daily organizational decision-making and operational activities (Anderson, 1995; Anderson & Young, 1999; Chenhall, 2003; Drake & Haka, 2008; Hoque & James, 2000; Kaplan & Norton, 1996; Moers, 2006).

While prior management accounting studies have examined the relationships among environments, organizational characteristics, control systems, and performance (e.g. Abernethy & Bouwens, 2005; Baines & Langfield-Smith, 2003; Brownell & McInnes, 1986; Cavalluzzo & Ittner, 2004; Chenhall & Brownell, 1988; Emsley et al., 2006; Kren, 1992; Nouri & Parker, 1998), there has been little systematic empirical examination of whether organizational performance[2] is influenced by competition, delegation of decision making authority to lower level managers and changes in MACS.[3] This study fills this knowledge gap in current management accounting research. It makes several contributions to our understanding of the antecedents or environmental conditions under which MACS might be used to impact performance. Firstly, it extends prior MACS change studies of Libby and Waterhouse (1996) and Williams and Seaman (2001) by providing additional evidence on linking antecedents of changes in MACS with organizational performance, which has not been explored by these two studies. Secondly, this study provides additional insights into our understanding of the mediating effects of delegation of authority and changes in MACS, individually and jointly, on the relationship between competition and performance. This issue is not well developed in the current management accounting research

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[1] Management accounting and control systems (MACS) refer to a variety of accounting and control systems that are implemented in a firm to produce information for managerial planning and decision making (Daft & Backer, 1978; Damanpour, 1987; Libby & Waterhouse, 1996).

[2] Organizational performance or firm performance throughout the paper refers to performance of a strategic business unit, which is a division of a corporation or an independent firm.

[3] This paper acknowledges that numerous factors affect performance and performance affects many other factors. But, given the need to limit the scope of this study, it focuses on this subset of variables because links between contextual variables like competition in the external environment, management control systems design and performance form the essence of a contingency theory of management accounting, and striving to understand empirically such a phenomenon has a long tradition in the management accounting literature.

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literature. Finally, the study's use of a path approach in theorizing the research problems facilitates the generation of valuable insights into the subject phenomenon.

The next section presents a literature review and develops the hypotheses. Section 3 describes the research method. Next, Section 4 presents the research results. The final section offers conclusions and outlines the limitations of the study.

2. Literature and hypotheses

This study uses the mediating or intervening notion of contingency theory (Chenhall & Chapman, 2006; Drazin & Van de Ven, 1985; Gerdin & Greeve, 2004) to examine whether delegation of authority and changes in MACS mediate, or intervene the relationship between competition and performance. Fig. 1 presents the theoretical model of the study. As shown in Fig. 1, both the delegation of authority and changes in MACS are the intervening variables, competition is the independent variable and performance is the dependent variable. The expected relationships among the variables are presented in turn.

2.1. Competition and delegation of authority

Chandler (1962) suggests that delegation of authority is necessary for firms that wish to respond to changes in the marketplace. Another landmark study by Lawrence and Lorsch (1967) puts forward the idea that firms whose internal organizational processes are consistent with their external environmental demands tend to be organizationally more effective. Several studies in the organizational and accounting fields have followed this tradition and have found empirical support (for example, see Aiken & Hage, 1971; Bruns & Waterhouse, 1975; Chenhall & Morris, 1986; Damanpour, 1991; Khandwalla, 1972, 1973; Kimberly & Evanisko, 1981; Libby & Waterhouse, 1996; Merchant, 1984; Merchant & Manzoni, 1989; Moch & Morse, 1977; Moers, 2006; Thompson, 1967). These studies suggest that the problem of managing external environments such as competition involves a balance between allowing each organization the independence to react to its environmental demands through organizational changes and needing to control and integrate the work of all divisions that make up the firm (Libby & Waterhouse, 1996). There is also the view that broadening the scope of lower-level managers' activities by delegating more decision-making authority provides business units with significant degrees of freedom to make trade-offs among these activities (Jensen, 2001; Prendergast, 2002; see also Moers, 2006, p. 900).

In this study, it is deemed that competition would affect delegation choice. Market competition is one of the key elements of a firm's external environment (Krishnan, 2005; Krishnan, Luft, & Shields, 2002; Libby & Waterhouse, 1996; Mia & Chenhall, 1994). The study uses Khandwalla's (1972) five sources of competition, namely (a) competition for raw materials, parts and equipment, (b) competition for technical personnel such as engineers, accountants, programmers, (c) competition in promotion, advertising, selling and distribution, (d) competition in quality and variety of products, and (e) price competition in their main line of business. Intensity of these competition factors has an immense impact on the internal organization of the firm (Khandwalla, 1972, 1977; Lawrence & Lorsch, 1967). Gailbraith's (1977) core "exogenous" variable is environmental uncertainty, much of which is caused by competition. Gailbraith (1977) recognized that companies have multiple responses to uncertainty. Delegation of authority is one possible response.

The above discussion suggests that as market competition intensifies often in today's rapidly changing business environment, the level of delegation of authority should also change as an adaptive strategy. Thus, this study predicts that intensity of competition may lead senior management of the firm to delegate more authority to lower-level managers or divisions to deal with their day-to-day affairs. Stated formally in the form of the following hypothesis:

H1. Intensity of competition will be positively related to delegation of authority.

2.2. Competition and changes in MACS

Prior contingency studies (e.g. Hemmer, 1996; Hoque & Hopper, 1997; Khandwalla, 1972, 1974; Krishnan, 2005; Krishnan et al., 2002; Libby & Waterhouse, 1996; Merchant, 1984) suggest that today's firms need MACS that can provide timely, accurate and relevant information on a wide range of issues, including product costs, productivity, quality, customer service, customer satisfaction, and profitability. Kaplan (1995, p. 6) suggests that "The new competitive environment demands much more accurate cost and performance information on the firm's activities, processes, products, services, and customers." He (Kaplan, 1995, p. 6) further argues that in competitive environments, managers must also have timely and accurate information to guide their learning and improvement activities — information that will help make processes more efficient and more customer-focused.

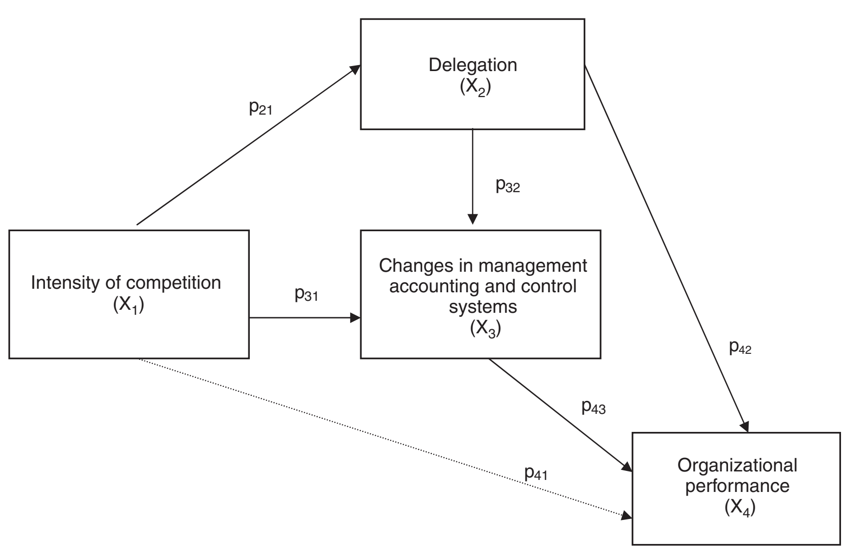

Fig. 1. Theoretical model of the study (path diagram for organizational performance).