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The impact of society on management control systems

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A R T I C L E I N F O

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A B S T R A C T

The aim of this study is to investigate whether certain configurations of management controls dominate in certain societies (socio-cultural contexts) and whether the effectiveness of a given archetype of management control systems (MCSs) varies depending on the socio-cultural setting—the society—in which it operates. The study focuses on three socio-cultural groups and the corresponding institutional contexts (an Anglo-Saxon group, a Central European group, and a Northern European group) and three MCS archetypes (delegated bureaucratic control, delegated output control, and programmable output control). We use unique data from a cross-national, interview-based survey encompassing 610 strategic business units from nine countries (seven European countries plus Canada and Australia). The idea that firms tend to adapt MCSs to the socio-cultural context does not gain empirical support in this study. No significant differences in the distribution of MCSs between the three socio-cultural groups are noted. However, we do find that programmable output control has a more positive impact on effectiveness in Anglo-Saxon cultures, while delegated output control has a more positive impact on effectiveness in Northern Europe. Taken together these findings indicate that distinct differences between societies make a particular MCS design more appropriate in a given society, but where such differences are not dramatic (as in the present case), multiple MCS designs can be found in the same society.

1. Introduction

What explains the design and use of management control systems (MCSs)? This question is fundamental to management control scholars and has generated an impressive body of knowledge (Chenhall, 2003). Empirical researchers have focused largely on how various contingency factors interact with MCSs, while less attention has been paid to the institutional contexts in which these interactions take place. Generally, the question pertaining to how the design and use of MCSs, and their effectiveness, may be influenced by the institutional contexts in which they operate is rarely addressed by contingency scholars. This is surprising considering that the central point of the contingency framework

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is the importance of context in understanding the design, use, and effectiveness of MCSs. This implies that observed relationships between contingencies and MCSs are presented as universally valid across institutional contexts, a circumstance that ought to spur contingency researchers within the MCS literature to think differently. Moreover, the lack of attention to institutional context may help explain the somewhat inconclusive results that have been reported in this stream of studies.

This outlook is supported by insights from a critical examination of perspectives used to explore the basis of differences in cross-country MCSs. Bhimani (1999) compares the conventional contingency theory perspective with four alternative perspectives: "the culturist perspective", from which nationally rooted cultural forces are seen as developing nationally specific solutions to control problems; "the business system perspective",[1] from which MCSs are seen as embedded in societal institutions; "the new institutionalism perspective", from which MCSs are seen as reproduced and reflecting taken-for-granted practices; and "the 'new' history perspective", from which contemporary MCSs are seen as reflecting historical political, socio-cultural, and economic changes. The study notes that the contingency perspective's reliance on "universalism and functionalism" (p. 434) is problematic because there are convincing arguments that the impact of conventional contingency factors on MCSs as revealed in cross-country research is restricted or even eliminated by socio-cultural or institutional factors (see Bhimani (2007) for an overview of the literature).

In this study we follow the lead of Whitley (1999a), who adopts the business systems framework (see also, e.g., Maurice, 1979; Sorge & Maurice, 1993; Sorge & Warner, 1986; Sorge, 1991; Whitley, 1992) to explain the existence and effectiveness of various types of MCSs within various business systems.[2] According to this framework, the conditions that enable actors to engage in economic activities are explained by their societal or socio-cultural context, i.e. a combination of value-based institutions (such as socio-cultural ideas and attitudes about trust, authority, loyalty, or individual rights) and proximate societal institutions (such as capital markets, education systems, and trade unions). Together these institutions shape, and are influenced by, the business system in a society (Whitley, 1992). Because institutions, and hence business systems, vary between societies, firms face varying conditions from one society to another and therefore behave differently depending on the society in which they operate. These explanations of organizational behaviour and design parallel arguments from transaction cost economics (North, 1991 Williamson, 1998) which, apart from the link between transaction characteristics and governance structure, is also a theory of the comparative efficiency of governance structures (market, hybrid, and hierarchy) under varying institutional conditions (rules of the game). In contrast to the transaction cost framework, however, business systems theory also more thoroughly examines both the industry and organizational levels. This makes it possible to adapt the framework to an MCS point of view since societal institutions are not only linked to contingencies (such as uncertainty) but also to administrative arrangements such as planning, performance measurement, and work organization. For example, managers delegate responsibility because they trust in a society's rules and procedures (societal institutions) but also because they trust employee skills (which depend on public training systems), the relative power of employees (which depends on the strength of unions), and a willingness to share risks (which is indirectly influenced by the way in which business finance is organized in a given society).

The number and complexity of factors that constitute this framework may initially seem over-whelming, but because many factors are thought to be interdependent and/or complementary, only a limited number of societal configurations appear in empirical research—in terms of institutional arrangements, i.e. types of societies and MCSs (Whitley, 1999a, 1999b). A configurative approach to this issue has the potential to add to our knowledge of interactions between institutions at the societal level and MCSs at the organizational level. Such an approach responds to calls in the literature for more accounting research applying a configurative approach (e.g. Bedford & Malmi, 2015; Chenhall & Langfield-Smith, 1998).

Whitley's article (1999a) is conceptual and his propositions pertaining to relationships between societies and MCSs are tentative. Departing from Whitley, we elaborate on the classification of MCSs in a way that is more in line with common typologies of MCSs used in the accounting literature. Furthermore, because neither strong theory nor a deep understanding of empirical circumstances exists regarding *exactly* how institutional context and MCSs interact, we develop hypotheses related to both the congruence and the contingency structural form of fit between institutional contexts and MCSs (Gerdin & Greve, 2004). Departing from Whitley (1999a), and using studies on empirical classifications of countries into types of society (Hotho, 2014), we test hypotheses about whether certain types of MCSs dominate in certain societal types and/or whether MCSs differ in effectiveness across societies.

Using a cross-country data set covering 610 strategic business units, we show that MCSs vary in effectiveness (measured by return on assets—ROA) with the socio-cultural contexts in which they operate. To the best of our knowledge we offer the first large-scale empirical evidence of the importance of society–MCS fit and as such we add important knowledge to the contingency-based literature on MCS design and use (Chenhall, 2003; Gerdin & Greve, 2004; Hartmann, 2000). Our hypotheses related to the domination of certain types of MCS in certain societies find no support, which seems logical considering that the presence of the contingency form of fit decreases the likelihood of finding evidence of the congruence form (Gerdin & Greve, 2004). Our findings thus imply that in today's business system landscape MCSs travel and become established widely in organizations across societies (Granlund & Lukka, 1998). Still, the appropriateness of such MCSs when implemented across societies varies significantly. Such a finding should not only contribute to scholarly knowledge but also be practically relevant to managers and consultants.

The remainder of this study is organized as follows. The next section presents a taxonomy of societies or socio-cultural contexts (derived from the business system framework) followed by a discussion of society as a contingency factor. Special attention is dedicated to possible adaptation behaviour and to various forms of fit. Thereafter, we extend Whitley's typology of MCSs and derive hypotheses. Section 3 presents the data collection procedure, the measurement of variables, and the statistical methods used for testing the hypotheses. The results of the statistical analysis are presented in Section 4. The final section discusses the results, presents the research contributions of the study, highlights limitations, and, finally, provides some suggestions for further research.

2. Theory

2.1. Society as a contingency factor

Whitley maintains that institutions vary from one society to another. Institutions influence organizations and decision making, while organizational features in turn are closely linked with MCS characteristics. He lists six institutional factors that combine to form institutional contexts and suggests a typology containing six generic types of societal

[1] Bhimani (1999) terms this research track "societal effects" but in the present paper we refer to it as the "business system" framework because this is the concept most frequently used in the literature (Maurice, 1979; Sorge & Maurice, 1993; Sorge & Warner, 1986; Sorge, 1991; Whitley, 1992).

[2] The business system framework has been used for analysis of firm-level and management characteristics in individual countries (e.g. Halvorsen, Korsnes, & Sakslind, 1996; Lilja & Tainio, 1996) and sectors/regions (e.g. Räsänen & Whipp, 1992; van Iterson, 1996) as well as for comparative studies between countries (e.g. Lane, 1997; Sorge & Warner, 1986). It has also been applied in studies of the development of innovative competencies (Casper & Whitley, 2004; Whitley, 2000, 2002), corporate governance (e.g. Hartzing & Sorge, 2003), and globalization and organizational change (Kristensen & Morgan, 2012; Lane, 2006; Morgan, 2009).