



Configurations of control: An exploratory analysis



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ABSTRACT

There is growing interest in how management controls operate together as a package of interrelated mechanisms. Although theoretical debate dates back to the seminal paper of Otley (1980), there remains little empirical analysis of how control mechanisms combine. To increase knowledge in this area this study explores how multiple accounting and other control mechanisms commonly combine and the associations these combinations have with firm context. From a cross-sectional sample of 400 firms, this study presents an empirically derived taxonomy of five control configurations used by top managers, labelled as simple, results, action, devolved, and hybrid. Many of these patterns closely resemble control configurations common to the literature, while others represent distinctively contemporary arrangements, such as flexible variants of traditional bureaucracy (action), and instances where multiple and seemingly conflicting control types intermesh (hybrid). In analyzing these configurations this study provides accounting and control researchers with empirical observations to refine and extend existing control frameworks and theory.

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1. Introduction

It has long been recognised that management controls operate as a package of interrelated mechanisms (Dent, 1990; Fisher, 1995; Flamholtz et al., 1985; Malmi and Brown, 2008; Otley, 1980). This literature visualises accounting not as an isolated system but as an interwoven component of an organizational control package (Otley, 1980). Most empirical research, however, examines accounting and other control mechanisms independently (Grabner and Moers, 2013; Luft and Shields, 2003; Speklé, 2001). Although much has been learnt about the determinants and effects of individual mechanisms, the literature provides little insight into the influence of any one control

upon another or how multiple controls combine. As Abernethy and Brownell (1997, p. 246) observe:

It is clear that organizations rely on combinations of control mechanisms in any given setting [...] Until empirical work begins to examine this complex question, our understanding of how the full range of management controls operates will remain piecemeal.

The aim of this study is to empirically examine how accounting and other control mechanisms combine as a package and the associations these combinations have with contextual circumstances. Specifically, this study develops a taxonomy of control configurations. Although taxonomies are descriptions, rather than explanations, of empirical phenomena, they are important for valid theory construction for a number of reasons (Sanchez, 1993). First, taxonomies provide an empirical basis to refine and extend conceptual frameworks. Much of the theorizing in management control research is built upon ideal types – e.g., output, behaviour, and clan (Ouchi, 1977, 1979), mechanistic and organic (Burns and Stalker, 1961). Ideal types are

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useful conceptual devices as they neatly describe discrete bundles of control and other structural components and the contexts in which they operate effectively. However, more complex arrangements are empirically observable, such as organizations that employ multiple control types simultaneously (Alvesson and Kärreman, 2004; Caglio and Ditillo, 2008; Snell, 1992). Empirically derived configurations can extend existing frameworks by describing more complex arrangements that arise in practice.

Second, taxonomies are useful for establishing the boundary conditions of contingency propositions. Organizational literature demonstrates that the relationships between contextual and structural variables in one configuration may be unrelated or even inversely related in another (Meyer et al., 1993; Sanchez, 1993). Focusing exclusively on deriving universal propositions is therefore likely to return weak or confounding results, as evidenced in some streams of contingency research (Hartmann, 2000; Hartmann and Moers, 2003; Langfield-Smith, 2007; Speklé, 2001). Identifying common control configurations may improve the generalizability of contingency results by locating the organizational populations in which particular relationships are likely to be valid (Sanchez, 1993).

Third, knowledge of broad control patterns is necessary for constructing valid empirical tests of specific mechanisms. A good theory of accounting control should contain as few determinants as possible (Malmi and Granlund, 2009). But as organizations employ multiple control mechanisms that may be systematically associated with accounting, those mechanisms need to be controlled for in empirical research. Given that not every control mechanism available to an organization can be feasibly incorporated into statistical analyses one way of “addressing these concerns is to identify a variety of control taxonomies and consider how they relate to various aspects of MCS” (Chenhall, 2003, p. 131). Identifying those mechanisms that coexist in a particular context facilitates development of parsimonious models that are at a reduced risk of producing spurious results. Furthermore, mechanisms that tend to be observed in combination provide useful guidance for researchers seeking to identify complementarity or substitutability between control mechanisms (Grabner and Moers, 2013).

From a cross-sectional sample of 400 medium to large firms this study constructs a taxonomy of five control configurations used by top managers, labelled as simple, results, action, devolved, and hybrid. While many of these patterns have close resemblance to prior control types (simple, results, devolved), others represent distinctively contemporary arrangements not widely recognised as prominent control forms – such as flexible variants of traditional bureaucracy (action) and instances where multiple and seemingly conflicting control types intermesh (hybrid). In examining how accounting is implicated within these configurations, and the associations with contextual variables, this study presents a more complex image of how accounting and other controls commonly combine than currently recognised in the literature. Such an image, although by no means entirely surprising, provides accounting and control scholars with empirical observations to refine and extend existing frameworks and theory.

The remainder of this study is structured as follows. The next section outlines the configuration approach and the theoretical and empirical research on organizational and control configurations, followed by the research questions of this study. The section thereafter introduces a framework that informs the choice of control mechanisms and contextual factors used in the empirical analysis. The research design and statistical methods are then detailed, followed by the results and analysis. The final section presents the conclusions, directions for future research, and limitations of this study.

2. Literature review and research questions

The configuration approach contends that a comprehensive understanding of accounting and control structure diversity requires organizations to be investigated as multidimensional arrangements of interrelated components (Dess et al., 1993; Gerdin and Greve, 2004; Meyer et al., 1993).¹ The central assumption underpinning this approach is that a strong propensity exists for organizational components to cluster systematically, forming a discrete number of temporally stable arrangements (Gersick, 1991). This tendency arises from both exogenous and endogenous forces. Exogenous forces, such as environmental selection and competition (Hannan and Freeman, 1989), effectively limit the number of viable combinations. But endogenous pressures mean that organizations will actively seek out arrangements that have an internally consistent logic (Child, 1972). This implies that organizations are not distributed widely across structural and contextual traits, but will tend to co-locate around a finite number of empirically identifiable patterns. This position is supported in a review of major taxonomic studies in organizational literature by Sanchez (1993), who concludes that notwithstanding a number of methodological shortcomings “in the aggregate they appear to demonstrate that organizations do indeed cluster in recognizable groups” (p. 73).

Organizations are expected to maintain internal consistency even at the expense of superior environmental fit of individual components. Piecemeal alterations work against developing efficiency in operational routines and can destroy existing complementarities between components (Miller and Mintzberg, 1984). Modifying only a few components at a time may “not come at all close to achieving all the benefits that are available through a fully coordinated move, and may even have negative pay-offs” (Milgrom and Roberts, 1995, p. 191). Although there is some latitude to adjust arrangements in response to contextual variations, particularly peripheral components

¹ In organization literature there are numerous terms used in relation to configurations (Dess et al., 1993; Meyer et al., 1993; Miller and Friesen, 1984). *Configuration* refers to a specific arrangement of multiple parts, components, elements, mechanisms, attributes, or the like. A classification scheme of configurations can be developed conceptually (*typologies*) or derived empirically (*taxonomies*). *Archetypes* and *gestalts* are often considered as synonymous with configurations, although the term *gestalt* tends to be used to indicate arrangements that commonly arise in reality, whereas *archetypes* may refer to arrangements that only exist conceptually. These arrangements may or may not be optimal. Theoretically consistent, optimal arrangements are referred to as *ideal types*.

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