



# The Levers of Control Framework: An exploratory analysis of balance



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## ARTICLE INFO

### Article history:

Received 25 November 2014

Received in revised form

20 November 2015

Accepted 6 December 2015

Available online 30 December 2015

### Keywords:

Levers of Control Framework

Balance

Management control

Cluster analysis

Contingency theory

Configuration theory

## ABSTRACT

The impact of the Levers of Control (LOC) framework on the accounting literature is undeniably large. The framework, however, has also been criticized for being vague and ambiguous. One of the central, but unclear, concepts in the LOC framework is the notion of balance. That is, the framework holds that control systems must be in balance in order to manage competing tensions such as that found between predictable goal achievement on the one hand and innovation on the other. The goal of our study is to examine the concept of balance and to provide empirically informed insights on different balancing arrangements that exist in a cross-section of business units. We develop a survey and administer it in person to a convenience sample of business unit managers. Using responses from 217 managers, cluster analysis reveals a stable solution with four distinct patterns of balance, which we interpret using configurational thinking. We label the clusters strategic vigilance, strategic exploitation, strategic responsiveness, and strategic stability respectively, and examine organizational and contextual factors that validate and help explain the observed patterns of balance. By identifying empirical manifestations of balance, our study sheds light on one of the key concepts in the LOC framework, providing an empirically informed starting point for future theoretical analysis and interpretation.

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## 1. Introduction

The central theme of the Levers of Control framework (LOC framework; [Simons, 1994, 1995](#)) is that control of business strategy is achieved by balancing the forces of four different levers of control, i.e. beliefs control, boundary control, diagnostic control, and interactive control. The power of these four levers, it is argued, does not lie in how each is used individually, but rather in how they work together, how they complement each other, and how they achieve balance ([Simons, 1995](#)). The levers are said to generate positive and negative forces that jointly create a dynamic tension between innovation and strategic renewal on the one hand, and predictable goal achievement on the other, both of which need to be managed to secure the organization's long-term success (e.g., [March, 1991](#); [Raisch and Birkinshaw, 2008](#)).

The LOC framework has gained a prominent position in contemporary management control thinking. Although the influence of the LOC framework on control in practice is hard to document, its impact on the literature is undeniably large. For instance, [Tessier and Otley \(2012\)](#) found almost 800 citations of [Simons' 1995](#) book

in Google Scholar—a number that has more than tripled since their count in 2011. [Sweeney et al. \(2012\)](#) performed a comprehensive review of the leading academic accounting journals and found almost 30 empirical studies that explicitly used the LOC framework, either as their main theoretical perspective or to interpret relationships in the data. The framework, however, has also been criticized for its vague and ambiguous definitions, both at the level of individual constructs in the theory ([Bisbe et al., 2007](#); [Ferreira and Otley, 2009](#)) and at the level of the framework as a whole (e.g., [Tessier and Otley, 2012](#)).

One central, but unclear, concept in the LOC framework is the notion of balance ([Sweeney et al., 2012](#)). [Simons \(1995\)](#) casts a major part of his discussion of the organizational and managerial challenges associated with strategy and control in terms of balance and trade-offs. For instance, he argues that organizations need to strike a balance between unlimited opportunities and limited managerial attention, between self-interest seeking and the desire to contribute, between intended and emergent strategy, and between innovation and predictable goal achievement. To manage these trade-offs, [Simons \(1995\)](#) suggests that organizations need to balance their reliance on the four levers of control to create an appropriate dynamic tension; that is, a tension that is likely to stimulate the right mix between compliant behavior and creative search efforts necessary for organizational success. However, despite these

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frequent references to balance, Simons does not provide a definite notion of what balance is, nor how balance is reflected in the control system.

To provide a conclusive understanding of balance will require multiple studies to sort out how a balanced set of control levers produce complementarities resulting in dynamic tension and how that dynamic tension leads to enhanced performance. This is not an easy task since different balancing arrangements will result in different performance outcomes, fitting different underlying strategic objectives and agendas. The purpose of our study is to take a first step in exploring balance. We do so by examining the patterns of use of the four levers of control in order to provide empirical evidence on manifestations of balance (hereafter referred to as balancing arrangements) that exist in a cross-section of business units (units hereafter). We develop a survey and administer it in person to a convenience sample of unit managers (managers hereafter). Using responses from 217 managers, cluster analysis reveals a stable solution with four balancing arrangements, which we interpret through the lens of configurational thinking and label strategic vigilance, strategic exploitation, strategic responsiveness, and strategic stability. We draw on key variables from contingency theory, as well as industry factors, to validate and help explain the observed patterns.

This is an important project for several reasons. Referring to the notion of balance, prior research on the LOC framework has provided empirical evidence that, jointly, diagnostic and interactive uses of performance measurement systems can help enhance performance (Henri, 2006). Findings from other studies suggest that all four control levers are necessary in the control package in order to be effective and to result in a beneficial dynamic tension (e.g., Bruining et al., 2004; Tuomela, 2005; Widener, 2007). Although these studies have started to address the simultaneous use of multiple control levers, they leave the notion of balance among the levers implicit. We complement these studies through an explicit focus on the empirical manifestations of balance, adding to the empirical foundation of the LOC framework. In so doing, we respond to the call by Mundy (2010) to provide insights on different balancing arrangements that exist in a broad sample of firms and, furthermore, to examine the organizational factors associated with the observed patterns of balance. By shedding light on how balance empirically manifests itself, our study helps to explicate a hitherto underspecified theoretical claim in the LOC framework.

In addition to exploring the empirical manifestations of balance, our study also makes a theoretical contribution. By integrating management control and organizational literatures we expand on the meaning of balance and suggest that it can be defined as a limited number of configurations that include combinations of all four control levers that are internally consistent, but that are not necessarily equally emphasized. We posit that multiple combinations of levers can result in balance, which is consistent with configurational theory, and that these configurations are associated with different strategic challenges and contextual settings, which is consistent with contingency theory. Thus, we conclude that balance can mean different things to different organizations and can be achieved in different ways across units. Moreover, since different configurations of the levers align with different strategic and contextual challenges, multiple (but limited) types of balancing arrangements will be effective. This theoretical explication is a significant step in the further development of the LOC framework, adding to its explanatory expressiveness.

Finally, our study contributes to practice by showing that there is not just one balancing arrangement that suits all units, but that managers must decide which pattern of control best suits the strategic challenges they face and the circumstances in which they operate.

The remainder of this paper is structured as follows. The next section reviews the relevant literature. Then we describe the design

of our study. We subsequently present the results of the analysis and our interpretation of the findings. In the last section, we summarize our study, discuss the conclusions and limitations, and provide suggestions for further research.

## 2. Background Literature and Development of Research Question

In order to develop our research question about the meaning of balance and its empirical manifestations, we first examine Simons' (1995) concept of balance within the LOC framework and related empirical work. We then discuss literature on organizational ambidexterity, configurations, and contingency theory. We relate these literatures to frame our research question and to guide our empirical examination.

### 2.1. Balance and the LOC Framework

Since the emergence of the LOC framework, researchers have sought to provide evidence on its underlying principles. The notion of balance, however, remains rather vague. This is not to say, though, that the literature offers no clues at all to the idea of balance and how it can be achieved. Simons (1995) positions the control levers as being related to certain strategic objectives. So, for example, if firms are concerned with strategy as a plan they heavily emphasize diagnostic control, addressing such issues as how they are performing in turning their intended strategy into a realized strategy, and whether or not the implementation is on track. On the other hand, if top managers are focused on strategy as a pattern, they give emphasis to interactive control. The focus is on identifying opportunities for strategy to emerge. An emphasis on boundary control is associated with concerns with strategy as a position, ensuring that the strategy domain is firmly set, and that behavioral hazards are recognized and dealt with in codes of conduct. Finally, an emphasis on beliefs control is associated with a concern with strategy as a perspective. Top managers want to share the firm's vision and ingrain it deeply throughout the organization.

The concept of balance has begun to attract attention in the empirical literature. The initial focus in this literature has been on the examination of opposing forces created by the joint interactive and diagnostic uses of performance measurement systems. For example, Henri (2006, 531) states that "These two types of use [i.e., interactive and diagnostic] work simultaneously but for different purposes. Collectively their power lies in the tension generated by their balanced use which simultaneously reflects a notion of competition and complementarity" (italics added). Henri (2006), however, does not specify what balance looks like, but proxies for dynamic tension by interacting the diagnostic and interactive use of the performance measurement system and predicts a positive coefficient on the relation of the interaction term with the creation of organizational capabilities. Thus implicitly, he seems to be arguing that each possible combination between interactive and diagnostic control may represent balance, and that the combination displays more positive benefits as firms rely more on one or both of the control levers. Henri (2006, 547) states, "more research is needed to provide a deeper understanding of the dynamic interplay between the positive and negative effects of tension resulting from balanced use of [performance measurement systems] in a diagnostic and interactive fashion".

To enhance the findings from the examination of interactive and diagnostic uses of performance measures, studies have started to focus on the complete LOC framework, comprising all four control levers. In support of Simons' (1995) conceptualization, a primary insight from this literature is that the four levers work together and influence each other, but the notion of balance remains elu-

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