



The impact of interactive and diagnostic uses of budgets on team effectiveness



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ABSTRACT

This study investigates the impact of style of budget use on team-level motivation and team effectiveness. Specifically, we draw on [Simons' work \(1994, 1995, 2000\)](#) to examine how, in biotechnology firms, the extent of interactive and diagnostic uses of budgets affect team effectiveness directly and indirectly through perceived collective efficacy. We used an online survey to obtain data for this study and analysed the data using partial least squares approach. The main results suggest that the extent of interactive use of budgets has direct positive effects on team effectiveness and that the positive effect of the interactive use of budgets on team effectiveness is partially mediated by perceived collective efficacy. We did not find support for the predicted positive effect of diagnostic use of budgets on perceived collective efficacy and team effectiveness. We explain the implications of these results.

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1. Introduction

The aim of this study is to examine the impact of style of budget use on perceived collective efficacy in formal work teams and team effectiveness. We draw on [Simons' work \(1994, 1995, 2000\)](#) to examine the impact of the extent of interactive and diagnostic uses of budgets on perceived collective efficacy and team effectiveness. Perceived collective efficacy refers to team members' beliefs in their conjoint capabilities to organise and execute actions required to accomplish a given task ([Chen and Bliese, 2002](#); [Mulvey and Klein, 1998](#)). It is an important team-level motivation factor that predicts team effectiveness.

This study is motivated by three interrelated factors. First, there is limited research that examines the role of accounting in a team context. The use of formal work teams has become widespread in contemporary organisations ([Chenhall, 2008](#); [Scott and Tiessen, 1999](#);

[Gordon, 1992](#)) and this is largely attributed to the potential of teams to improve effectiveness and flexibility ([Jehn and Mannix, 2001](#); [Schnake, 1991](#); [Scott and Tiessen, 1999](#)). The argument that teams are more effective in achieving desired outcomes is derived mainly from the social psychology research. This research demonstrates that the presence of others in a work situation has the effect of encouraging an individual to focus attention on his/her contribution to team outcomes, thereby enhancing team performance ([Levine et al., 1993](#); [Schnake, 1991](#)). This effect is generally known as social facilitation. Although social facilitation is an important explanatory factor for the increasing use of formal teams in contemporary organisations, prior research has shown that people working in teams do not necessarily perform as expected of them on the basis of their individual performances ([Levine et al., 1993](#); [Kerr, 1983](#)). The results of these studies suggest that lower than expected effectiveness of teams is largely due to motivation loss within teams. Given that accounting control systems have long been established as playing important roles in motivating the efficient and effective management of organisations (see for example [Bisbe and](#)

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Otley, 2004; Simons, 2000; Otley, 1994), we find it necessary to examine how accounting is implicated in team motivation and team performance.

Second, there is limited evidence on how accounting controls are implicated in team motivation. Although prior accounting studies have examined motivation at the individual level, extending the results of these studies to team level may not be appropriate. Research suggests that team-level motivation may differ from individual-level motivation. This is because team-level motivation is not simply the sum of individual team member's motivations (Bandura, 2001, 1997; Levine et al., 1993). Bandura (1997) argues that beyond individual-level motivation, people who work in teams also have additional considerations that contribute to team-level motivation such as: (a) beliefs about whether team members have the requisite skill to execute assigned task, and (b) confidence that team members will collaborate in the execution of task. Zajonc (cited in Levine et al., 1993) also argues that team-level motivation differs from individual-level motivation in that, the presence of others in teams is likely to elicit accessible cognitions that may facilitate or impair performance. In addition, Baron (1986) argues that the presence of others in team settings is a distraction, which causes either performance increments or decrements. The paucity of accounting research that focuses on team motivation and the recognition that team-level motivation may differ from individual-level motivation, prompt us to examine the effect of accounting controls on team motivation.

Third, this study focuses on the style of budget use to examine the role of accounting controls in a team context. We focus on budgets as they are a major feature of organisations' management control systems (Abernethy and Brownell, 1999) and are among the most widely used accounting controls in practice (Bisbe and Otley, 2004). Simons (1990) argues that there are distinctive differences in the way accounting controls (including budgets) are used by top management. Traditionally, the focus has been on the diagnostic style of budget use where top management evaluates a team's performance by comparing it to the targets. Prior studies have helped to enrich our understanding of the effects of the diagnostic uses of accounting in team settings, for example, the influences of different incentive structures (Libby and Thorne, 2009; Towry, 2003; Young et al., 1993) and the use of comprehensive performance measures on team performance (Scott and Tiessen, 1999). We seek to complement the existing accounting literature by examining the impact of both the diagnostic and interactive uses of budgets on team motivation and team effectiveness.

We conduct a cross-sectional survey of members of teams in biotech firms in the United States. The results support our prediction that the extent of interactive use of budgets in these teams will have a direct positive relationship with team effectiveness. However, the extent of diagnostic use of budgets has no significant relationship with team effectiveness. We also find support for our prediction that the extent of interactive use of budgets will have a direct positive relationship with perceived collective efficacy but no support for the effect of diagnostic

use of budgets on collective efficacy. In addition, consistent with prior research (Chen and Bliese, 2002; Lent et al., 2006; Wang and Lin, 2007), we find a significant direct positive relationship between perceived collective efficacy and team effectiveness. Whilst the test of the link between perceived collective efficacy and team effectiveness is a replication of prior studies, this test is necessary to examine how the relationship between the extent of interactive use of budgets and team effectiveness is partially mediated by perceived collective efficacy. Our analysis provides support for partial mediation with a significant indirect effect between the interactive use of budgets and team effectiveness through perceived collective efficacy.

This study makes three broad contributions to the literature. First, it contributes to our understanding of how the style of budget use (particularly the interactive use of budgets) affects team-level motivation and team effectiveness. Teams are becoming central to the effective functioning of contemporary organisations (Jehn and Mannix, 2001), and given the amount of organisational resources invested to ensure their effectiveness, improving our knowledge of the style of budget use in teams will enable managers to improve team performance. In particular, this study is among the first to examine the relationship between the extent of interactive and diagnostic uses of budgets and team-level motivation and how that link translates into team effectiveness. Second, we contribute to the accounting literature that focuses on the use of accounting controls in innovation settings (Bisbe and Otley, 2004; Davila, 2000; Hertenstein and Platt, 2000) by examining (biotech) teams that operate in an innovation environment. Third, Abernethy and Brownell (1999) argue that much of prior research on budgets focuses on the diagnostic use of budgets to the virtual exclusion of the interactive use of budgets. This study responds to their call for more studies on the interactive use of budgets by examining both the interactive and diagnostic uses of budgets in a team environment.

2. Literature review and hypotheses development

2.1. Work teams in organisational settings

Kirkman and Rosen (1999, p. 58) define a work team as "a group of individuals who work interdependently to solve problems or carry out work." Such groups of individuals are interdependent because of the tasks they perform as members of a group within a larger organisational body. Social psychologists argue that when individuals are constituted into teams, their joint outcome is not merely the product of their individual knowledge and skills but also the interactive and synergistic dynamics of their working relationships (Bandura, 2000; Guzzo and Dickson, 1996). Consequently, a work team in an organisational setting is conceptualised as a social entity within which beliefs and perceptions about the actions and behaviours of other members of the team can affect not only the level of motivation within the team, but also effective team outcomes (Bandura, 2000; Mulvey and Klein, 1998).

A major team motivational factor that is argued to be conditioned by team members' beliefs and perceptions (and which have consequences for effective team

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