



# An examination of the relationship between the extent of a flexible culture and the levers of control system: The key role of beliefs control



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## ABSTRACT

This study examines the relationship between the extent of a flexible culture and the emphasis placed on the Levers of Control (LoC) Framework. We use a structural equation model to investigate whether the extent a firm emphasizes a flexible culture is related to the emphasis placed on beliefs, boundary, diagnostic and interactive controls. We also examine whether a key contingency variable, size, moderates our proposed model. Using survey data from 267 top managers of medium-sized firms, we find, as expected, that the more firms emphasize a flexible culture, the more they emphasize the use of beliefs controls. We show that this finding is robust to firm size. Thus, we conclude that the emphasis placed on beliefs control is an important control mechanism in organizations that emphasize a flexible culture. We also conclude that size moderates the associations among the control levers. Relative to the subsample of smaller firms, in the subsample of larger firms the beliefs and boundary control uses of performance measures are more reinforcing of each other while the diagnostic use of performance measures and boundary control act more as replacements for each other.

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## 1. Introduction

*“It [core values] gives our folks permission to stay within those boundaries and yet still have judgment, and the core values are really a set of values that then give you flexibility to be yourself; to make your own set of decisions to help this great company... You strive every day to try to do the right thing.” (John Tyson, Chairman of Tyson Foods, <http://www.tysonfoods.com/OurStory/Core-Values.aspx>)*

The environment in which management control systems (MCS) operate has changed dramatically since the 1970s (Kaplan and Norton, 1996). During the industrial age firms used ‘command-and-control’ systems to direct behaviors and monitor results supportive of achieving efficiencies associated with economies of scale and scope (Kaplan and Norton, 1996; Simons, 1995). However, due to changes in the competitive landscape, organizations must now be flexible in order to address customer needs and respond to market changes. MCS, which are formal, routine-based systems that help

to maintain or alter organizational activities, must take this need for a flexible culture into account in its design and balance competing demands inherent in today’s complex business environment. Henri (2006b: 77) describes the competing demands as the need to balance “tension between control and flexibility.” Henri (2006b) suggests that an important, but unanswered, question is to understand how a MCS is designed to enable appropriate control while still facilitating flexibility values embraced in the organizational culture.

Henri (2006b) documents some of the first quantitative evidence on the relation between MCS and the competing cultural demands of stability (e.g., ‘command-and-control’) versus flexibility (see also Bhimani, 2003 and Agbejule, 2011) by examining how culture affects the interactive and diagnostic uses of performance measurement systems (PMS). Organizational culture, which is the shared values and norms of the collective organization, is an important building block of an organization (Schein, 1990). To theorize culture, the accounting literature (e.g., Bhimani, 2003; Henri, 2006b) has drawn on The Competing Values Framework (CVF) which proposes that culture is a function of a limited set of competing values that vary along a continuum anchored by stability at one end and flexibility at the other (Quinn and Rohrbaugh, 1983). Stability values convey predictability, formality, rigidity, and conformity while flexibility values convey spontaneity, change, openness, adaptability and responsiveness. Using a continuum

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anchored by competing foci, solely stability versus solely flexibility values, [Henri \(2006b\)](#) captures the competing demands and shows that the more firms emphasize flexibility values, the more diversity they have in their PMS and the more they use it to focus attention and facilitate strategic decision-making. Consistent with [Henri \(2006b\)](#) our focus is on the stability – flexibility continuum since, by its very nature, it is a key issue in the design of MCS (e.g., [Simons, 1995](#); [Henri, 2006b](#)).

The purpose of this paper is to examine the relationship between the emphasis firms place on a flexible culture and their emphasis on beliefs control. As illustrated in the opening quote, top managers view the establishment and reliance on core values as a mechanism that co-exists well with a flexible culture, indeed, “the role of ‘value systems’ as a mechanism of management control is increasingly acknowledged” ([Marginson, 2008, 7](#)). In management control terminology, value systems are embedded in beliefs control, which is defined as “the explicit set of organizational definitions that senior managers communicate formally and reinforce systematically to provide basic values, purpose, and direction for the organization” ([Simons, 1995, 34](#)). Beliefs control serves to inspire, guide, and motivate behavior through the use of broad value-laden concepts ([Simons, 2000](#); [Mundy, 2010](#)) allowing employees to engage in spontaneous and responsive actions and adapt to changing business conditions, consistent with flexibility values ([Quinn and Rohrbaugh, 1983](#); [Henri, 2006b](#)).

Controls, though, work together in either packages or systems ([Grabner and Moers, 2013](#)). Thus, to enhance external validity and examine a more complete system of controls we take into account all of the controls contained in the Levers of Control (LoC) Framework ([Simons, 1995](#)), including the emphasis placed on boundary control and on the diagnostic and interactive uses of performance measures.<sup>1</sup> We use the LoC framework not only because it includes beliefs control, but because [Simons \(1995\)](#) theorized that it helps manage competing organizational demands. Although there is no empirical evidence on the relationship between the extent of a flexible culture and the LoC framework, [Simons \(1995\)](#) contends that the four levers together create the control necessary to ensure congruent behaviors while still allowing for flexibility, innovation, and creativity.

Using survey data from 267 CEOs, CFOs and other top managers of medium-sized German firms, we construct a measure of the *extent of a flexible culture* by creating a continuum anchored with end points capturing a wholly stable culture versus a wholly flexible culture. Descriptively, we find that firms emphasize all controls regardless of where they reside on the culture continuum. The rank ordering of control usage is similar across cultures; diagnostic control is emphasized the most and interactive control the least. The results from a structural equation model show that the more firms emphasize a flexible culture, the more they emphasize beliefs control. Further, consistent with [Simons \(2000\)](#) we find positive associations among the four control levers; thus, they ‘work together’. Size is an important contextual factor which is underresearched in the contingency literature ([Chenhall, 2003](#)). Although our setting is medium-sized firms, there is a large variance in size. The results show that the association between the extent of a flexible culture and emphasis on beliefs systems does not depend on size. Thus, we conclude that the relationship between a flexible culture and emphasis on beliefs control is robust across firm size. However, the results show that in the subsample of larger firms,

relative to the subsample of smaller firms, there is a larger positive association between beliefs and boundary control; thus, when emphasis on one control is increased, there is a larger increase in the emphasis of the other control.

In a sample of large public U.S. firms, [Widener \(2007\)](#) concludes that the use of beliefs control influences and complements each of the other controls in the LOC framework. In a sample of Canadian manufacturing firms, [Henri \(2006b\)](#) concludes that the extent firms emphasize a flexible culture is associated with the diversity of performance measurement and its use. We bridge the gap between these two papers by integrating the importance of beliefs control (from [Widener, 2007](#)) with the extent of a flexible culture (from [Henri, 2006b](#)). Using a setting of medium-sized firms that is ideal to provide information and variance on our constructs of interest (e.g., [Lopez and Hiebl, 2014](#)), this study contributes to the body of research that investigates the relationship between organizational culture and beliefs control (specifically) and MCS (more generally).

Specifically, we aim to make two interrelated contributions. First, we corroborate field work which concludes that firms emphasize beliefs control to create a control system focused on the communication of values and social influence ([Marginson, 2008](#)) and document when (under what circumstances) it occurs. Our conclusion that beliefs control is the key integrating control for firms with a flexible culture extends the growing literature on beliefs control by showing the importance it has in firms that emphasize flexibility (see e.g., [Kennedy and Widener, 2014](#); [Kruis et al., 2015](#); [Marginson, 2008](#); [Mundy, 2010](#); [Schaefer et al., 2015](#); [Speklé et al., 2014](#); [Tuomela, 2005](#); [Widener, 2007](#)). Moreover, the results complement the literature which argues that not all firms use only the PMS to enact control (e.g., [Kirsch et al., 2010](#); [Platts and Sobotka, 2010](#)). Second, many argue that the influence of organizational culture on MCS while important (e.g., [Baird et al., 2004](#); [Dent, 1991](#); [Flamholtz, 1983](#); [O’Connor, 1995](#)), is underresearched ([Bhimani, 2003](#); [Chenhall, 2003](#); [Wiersma, 2009](#)). [Henri \(2006b: 97\)](#) states, “Culture is an omnipresent factor which affects practically all aspects of organizational interactions.” Given the organizational shift from ‘command-and-control’ to one that values spontaneity and flexibility, our study shows *how* MCS are designed, *which* levers of control design hold in a flexible culture, and *when* (in what size of firm) the results hold, thus addressing a gap in the literature.

In sum, the primary purpose of this study is to both articulate and add empirical expressiveness to the relationship between a flexible culture and beliefs control thus addressing, at least in part, [Henri’s \(2006b\)](#) important, but unanswered question. By embedding beliefs control in a system that also includes diagnostic, boundary, and interactive controls, this study extends the external validity of [Henri \(2006b\)](#) by examining a ‘more complete’ system of controls which has been theorized to facilitate flexibility, but which does not yet have empirical evidence. By examining the influence of culture, this study extends the empirical expressiveness of [Widener \(2007\)](#) who examined strategic uncertainty and risk but ignored the effects of culture. The contributions of this study are important because the results provide insight into the dilemma of “order and control versus innovation and change” that “is at the heart of ongoing debates in management accounting” ([Henri, 2006b: 78](#)). We learn that firms can indeed have both control and a flexible culture and learn what that control looks like. A practical implication for firms that desire greater flexibility is to understand that while they will maintain emphasis on four control levers, emphasis on the beliefs control is key; it is associated directly with the extent of flexibility values and then all of the control levers work together to create an environment of control. Since management control and the desire for flexibility are both essential antecedents of organizational performance it is important to understand how they can co-exist.

<sup>1</sup> We follow [Henri \(2006b\)](#) and [Widener \(2007\)](#) by examining the diagnostic and interactive uses of performance measurement systems for two reasons: 1) it is a commonly used management accounting tool that a wide variety of companies are familiar with and utilize and 2) it facilitates the integration of our findings with those in extant literature ([Henri 2006b](#); [Widener 2007](#)).

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