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Management control systems and strategy: A resource-based perspective

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Abstract

The aim of this study is to examine, from a resource-based perspective, the relationships between the use of management control systems (MCS) and organizational capabilities. More specifically, the study focuses on the diagnostic and interactive uses of one important aspect of MCS, namely performance measurement systems (PMS), and four capabilities leading to strategic choices (i.e., market orientation, entrepreneurship, innovativeness, and organizational learning). Three research questions are investigated in this study: (i) to what extent do the diagnostic and interactive uses of MCS contribute *specifically* to the creation and maintenance of capabilities leading to strategic choices? (ii) To what extent do the diagnostic and interactive uses of MCS act in *combination* to produce dynamic tension which contributes to the creation and maintenance of these capabilities? (iii) To what extent does the use of MCS contribute to organizational performance? The results suggest that an interactive use of PMS fosters the four capabilities by focusing organizational attention on strategic priorities and stimulating dialogue. Also, by creating constraints to ensure compliance with orders, the diagnostic use of PMS exerts negative pressure on these capabilities. Furthermore, some evidence suggests the influence of dynamic tension resulting from the balanced use of PMS in a diagnostic and interactive fashion on capabilities and performance.

Introduction

In the current business environment characterized by fast changes in customers, technologies and competition, organizations need to continuously renew themselves to survive and prosper (Danneels, 2002). Innovativeness, organizational learning, market orientation and entrepreneurship are recognized as primary capabilities to reach competitive advantage (Hult & Ketchen, 2001; Hurley & Hult, 1998; Ireland, Hitt, Camp, & Sexton, 2001). Over the past 15 years, the resource-based view (RBV) of the firm on the origins of competitive advantage has become a very influential framework and one of the standard theories in the field of strategy (Barney, Wright, & Ketchen, 2001; Hoopes, Madsen, & Walker, 2003). The RBV

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is based on the principle that competitiveness is a function of distinctive and valuable resources and capabilities controlled by a firm. Despite considerable interest in the relationship between management control systems (MCS) and strategy, the MCS literature has devoted scant attention to the RBV. This study seeks to extend the research at the interface between MCS and strategy with the application of an RBV framework.

So far, a significant body of literature has explored the effects of strategy on MCS and, to a lesser extent, the effects of MCS on strategy (Dent, 1990; Langfield-Smith, 1997; Shields, 1997). A first line of research has emphasized the effects of strategy on MCS. The concept of strategy has been generally examined at a strategic-choice level: (i) market positioning: cost leadership versus differentiation (e.g. Bruggeman & Stede, 1993; Govindarajan, 1988; Govindarajan & Fisher, 1990), (ii) strategic pattern: prospector versus defender (e.g. Abernethy & Guthrie, 1994; Hoque, 2004; Simons, 1987), (iii) strategic mission: build, hold, harvest (e.g. Govindarajan & Gupta, 1985; Merchant, 1985), or (iv) strategic priorities: customization, quality, flexibility, etc. (e.g. Abernethy & Lillis, 1995; Chenhall & Langfield-Smith, 1998; Baines & Langfield-Smith, 2003; Ittner, Larcker, & Randall, 2003).

These conceptualizations generally take strategy as a given, consider it from a content perspective (Fahey & Christensen, 1986), and restrict its scope to the notion of intended strategy (Mintzberg & Waters, 1985).[1] In these studies, MCS are considered for the most part to be strategy-implementation systems and the last step in the strategic-management process. This conceptualization of MCS follows a structural approach whereby the perspective is static and the focus is placed on such issues as the presence or absence of specific systems, their technical properties and their design (Chapman, 1997, 1998; Dent, 1987).

A second line of research has emphasized the effects of MCS on strategy. The concept of strategy has also been examined at a strategic-choice level and, to a lesser extent, at a capabilities level. First, a number of studies have examined strategy at a strategic-choice level: (i) strategic priorities (e.g. Chenhall, 2005; Marginson, 2002), and (ii) strategic change (e.g. Abernethy & Brownell, 1999; Chenhall & Langfield-Smith, 2003). Other studies refer indirectly to strategy at a capabilities level in terms of innovation or organizational learning (e.g. Bisbe & Otley, 2004; Davila, 2000; Kloot, 1997).

These conceptualizations consider strategy as being influenced by MCS, consider it from a process perspective (Huff & Reger, 1987), and expand its scope to the notion of emergent strategy (Mintzberg & Waters, 1985). In these studies, the role of MCS in the formulation of strategy is recognized as well as their continuous implication during the strategic-management process. This conceptualization of MCS follows a processual approach whereby the perspective is dynamic and the focus is on such issues as the dialogue and interaction surrounding the use of MCS (Chapman, 1997, 1998; Dent, 1987).

Numerous authors have pointed out that the findings provided by the MCS-strategy stream of research remain ambiguous and sometimes contradictory (e.g. Abernethy & Brownell, 1999; Chapman, 1997; Chenhall, 2003; Ittner et al., 2003; Langfield-Smith, 1997). These ambiguous results can be attributed in part to the various definitions, conceptualizations and operationalizations of strategy and MCS (Kald, Nilsson, & Rapp, 2000; Langfield-Smith, 1997; Simons, 1990). They can also be explained by two elements: (i) the absence of a theoretical framework founded on the resource-based view, and (ii) the limited attention devoted to the dynamic tension resulting from different uses or roles of MCS.

First, the relationship between MCS and strategy may not have been studied at the right level of analysis. As suggested by Ittner and Larcker (2001), one key element in studying strategy and MCS is to identify the specific factors that do in fact lead to strategic success. Following the RBV, the link between strategy and MCS may occur at the capabilities level rather than the strategic-

[1] Based on the work of Mintzberg and Waters (1985) "intended" strategies are distinguished from "emergent" strategies. The former are associated with precise intentions by the organization and occur before action, while the latter reflect the absence of intentions and occur during action. Both types can lead to the notion of "realized strategies".