

Controlling Strategy

Christopher S. Chapman

The relationship between management control systems and strategy

The chapters that follow develop our understanding of the relationship between management control systems (MCS) and strategy through the synthesis of a considerable range of work in the fields of strategy and management accounting. As will be seen, such an easy labelling here belies the breadth and complexity of ideas underlying those labels (Miller 1998; Whittington 2003). A part of the motivation for this volume is to demonstrate something of the range of perspectives from which controlling strategy can be seen to be important. This volume does not attempt a complete inventory of possible perspectives, however. Instead, a common thread unites the diverse theoretical syntheses and analyses of field material presented in the contributions that follow. Both individually and collectively the chapters draw out in detail various ways in which MCS may actively build and sustain valuable strategic roles.

Except in highly controlled and stable environments it has become commonplace to think of MCS as at best irrelevant, more frequently as damaging (Chapman 1997). Yet, there is another view, taken forward in this volume, that MCS can enable innovative strategic responses in contemporary, unstable environments (e.g. Simons 1995; Chapman 1998; Ahrens and Chapman 2002, 2004). We hope this book will contribute to the emergence of a clearer and richer discussion of the strategic nature of MCS.

In the 1950s and 1960s management accounting techniques were seen as effective means of organizational coordination and control. Within firms and organizations, management accounting played a significant role through the disciplining effects of standard costing, variance analysis, and related systems (Anthony 1965). The increasing sophistication (aspirations) of corporate planning activities brought budgets greater prominence and prestige as the practical and effective toolkit for implementing organizational strategy. Whilst difficulties were clearly acknowledged (Argyris 1953; Ridgway 1956), discussions of strategic planning

during this period were naturally couched in terms of accounting measurements and systems (Norman 1965). New technologies were expected to further enhance the role of management accounting (Diebold 1965).¹ By the 1980s, however, management accounting was subject to widespread and sustained critique (Hayes and Abernathy 1980; Johnson and Kaplan 1987).

Against the backdrop of the activities of organizations such as Slater Walker in the UK in the 1960s and 1970s it is easy to see why critiques of accounting were frequently couched not simply as a failure to consider new priorities, but as a more fundamental incompatibility with them. Hostile takeovers and asset-stripping had given an unattractive, even pathological, slant to the idea of financial management (e.g. Roberts 1990). In the 1980s it became increasingly unclear that 'managing by the numbers' was at all desirable (e.g. Ezzamel et al. 1990). Goold and Campbell (1987) in their influential book outlined three basic styles of corporate control: financial control, strategic planning, and strategic control. Whilst providing unequivocal targets and a clear framework for up-or-out management development, financial control was seen to generate a focus on the short run over the strategic, inhibiting integrated behaviour between business units, and ran the risk of engendering a plethora of dysfunctional behaviours.

At least a part of the problem seems to have lain in the professional organization of management accounting practice. Management accounting practitioners emerged during the twentieth century as a significant, professionally organized group with an increasingly sophisticated (at least in their own terms) body of knowledge (Armstrong 1985). Their success in institutionalizing management accounting practices as they became more numerous and more influential provided a protective bubble for their work. In the absence of the detailed operational understanding that had informed its development, management accounting came to be seen as a collection of dangerous and misleading abstractions (Armstrong and Jones 1992). Its focus held on old issues through institutional inertia; it was unclear that management accounting was capable of developing responses to new strategic priorities such as quality, just in time, or zero defects (Johnson and Kaplan 1987).

¹ Interestingly, technology was an area in which Johnson and Kaplan (1987: 6) remained optimists: 'The computing revolution of the past two decades has so reduced information collection and processing costs that virtually all technical barriers to design and implementation of effective management accounting systems have been removed.'

In fact, recent decades have seen many developments in management accounting. Dent (1990) in helping to open up the study of strategy and management control noted that responses to Johnson and Kaplan's critique (1987) of the strategic usefulness of management accounting might be analysed in terms of two broad groupings. On the one hand there have been calls to refine the nature of management accounting practice (largely from accountants), and on the other there have been calls for its abandonment (from pretty much every one else)—a basic dichotomy that Hansen et al. (2003) have recently drawn upon in their study of budgeting innovations.

In terms of calls for development, one early response was the specific attempt to draw strategy into the realm of accounting practice (Bromwich 1990).² Rather than seeking to establish a new field of accounting practice, others worked within existing accounting paradigms, seeking to bring on board new strategic priorities (e.g. Cheatham and Cheatham 1996). Costing techniques were substantially reworked with the introduction of activity-based costing (ABC) (e.g. Cooper and Kaplan 1992). Still others sought to develop old techniques such as residual income (Bromwich and Walker 1998).

These various innovations have not met with unqualified endorsement. Budgetary control remains subject to widespread and sustained critique (see Hope and Fraser (2003) for a recent and high-profile example). Recent studies that sought to track the development of strategic management accounting practices found little use of the term, and limited application of the techniques, noting some uncertainty as to what exactly strategic management accounting might be (Tomkins and Carr 1996; Guilding et al. 2000; Roslender and Hart 2003). High-profile and active authors such as Goldratt and Cox (1992) argued strongly against the benefits of ABC, and many surveys on the subject report its limited take-up, poor performance, and subsequent abandonment as an organizational practice (Innes et al. 2000). Analysis of the success of economic value-based measures are also mixed (e.g. O'Hanlon and Peasnell 1998; Kleiman 1999). Whilst there might be an emerging consensus that such measures help provide a benchmark for quantifying strategic success, it is often seen to be difficult to link such measures to strategy directly. As such, their potential as systems of strategic control remains open to question.

² The term strategic management accounting had in fact been coined a decade earlier with the call to introduce more management accounting into marketing work (Simmonds 1981).

Whilst it too has its fair share of detractors, the most explicit and direct contemporary claims to recapture the strategic significance of management control practice are based around the development of the balanced scorecard (BSC) (e.g. Kaplan 2001*a, b*), a technique that started as a relatively straightforward call for greater levels of non-financial performance measurement (Kaplan and Norton 1992). Whilst the BSC seems ubiquitous it remains curiously flexible and undefined (see Hansen and Mouritsen, this volume), making it problematic as the conceptual basis for a re-analysis of the relationship between strategy and MCS.

Parallel to these concerns in accounting literature, recent developments in strategy literature are suggestive of new ways of considering the relationship between strategy and MCS. Recent interest in hyper-competitive environments has resulted in a reconceptualization of the strategy-making process from an episodic to a continuous endeavour (e.g. Brown and Eisenhardt 1997). The resource-based view on strategy has been an important development to relate organizational missions with organizational capabilities by introducing the notion of routines to the strategy debate (e.g. Johnson et al. 2003). The idea is that strategic capabilities are grounded in day-to-day organizational action. Despite Mintzberg's much earlier contribution (1987) on this topic the relationship between strategy-making by senior management and the day-to-day activity is only beginning to be systematically explored by strategists (Marginson 2002; Johnson et al. 2003; Whittington 2003; Feldman 2004). The emphasis on the daily routine of strategy-making is suggestive of a very different role for MCS than the previously predominant model of straightforward implementation of strategy (e.g. Simons 1991).

Explicit analysis of the role of MCS in the strategy literature has not stood still during this upheaval in the status of management accounting. Schreyögg and Steinmann (1987) and Lorange et al. (1986) are examples of early attempts to move beyond simple cybernetic models of control (Anthony 1965). More recently still there has been further elaboration. Muralidharan (1997), for example, carefully distinguishes between strategic control and management control, developing a clearer framework of roles. MCS remain strategically passive however. There is a growing tradition of studies in the accounting literature that speaks directly to emerging concerns in strategy literature (e.g. Roberts 1990; Simons 1990; Ahrens 1997; Mouritsen 1999; Briers and Chua 2001; Ahrens and Chapman 2002, 2004; Malmi and Ikaheimo 2003; Preston et al. 1992). The careful consideration of the relationship between ideas on strategy and

the details of day-to-day management control activity underpins much of the analysis of more emphatically active and strategically constitutive roles for management control systems contained in the various contributions to this volume.

The chapter by Chenhall begins with a broad overview of the ways in which the issue of strategy has been theorized by strategists. After outlining the distinction between content and process approaches, the chapter goes on to bring out some of the ways in which the study of the relationship between MCS and strategy might benefit from research that synthesizes ideas from both perspectives. A number of these issues are addressed in subsequent chapters. For example, the role of consultants is discussed in Hansen and Mouritsen's chapter; organizational inertia and institutional pressures are seen to undermine attempts at data analysis in Ittner and Larcker's chapter. Chenhall also begins to outline the ways in which MCS may play a role in organizational learning and change, both areas in which they have not traditionally been expected to play a significant role.

Davila systematically develops a framework for understanding the role of MCS in managing innovation and change in organizations. Beginning with a review of the theoretical underpinnings of thinking on the subject, his chapter goes on to make the point that whilst innovation is frequently seen as something external to the organization, the careful use of MCS can play a vital role in developing and shaping innovation. The analysis moves beyond traditional theorizing in exploring the various roles that MCS might play in either a structural or a strategic context, depending on whether the intention is to refine or replace existing strategy.

Langfield-Smith sketches the contours of the empirical literature on the relationship between MCS and strategy, highlighting areas for future research. Through the detailed discussion of selected studies she demonstrates that the extant literature concerning the BSC, and capital budgeting in particular, highlights the difficulties of incorporating strategy into management control activity. Two subsequent chapters in this volume demonstrate through fieldwork the complex ways in which MCS can inform strategy.

Ittner and Larcker, drawing on the results of a range of studies and their own fieldwork, unpack the ways in which strategic data analysis plays a central role in supporting (or, done wrong, undermining) the communication of strategic assumptions, the identification and measurement of strategic value drivers, processes of resource allocation, and target setting. Their analysis has clear implications for situations in

which MCS are intended as mechanisms for the implementation of strategy. Along with the other chapters, it demonstrates the ways in which strategic data analysis might play a central role in redefining strategic agendas (both negatively by challenging previously untested assumptions and positively by refining them).

Ahrens and Chapman draw on contemporary developments in social theory around notions of practice. In the light of these they draw out of their study of marketing analysis in a restaurant chain the ways in which MCS simultaneously report on external phenomena as they serve to render them amenable to manipulation according to internal agendas. For example, we see the ways in which 'the customer' is at once analysed in terms of their dining habits, and becomes established as an ideal through financial analysis.

Hansen and Mouritsen, likewise, are concerned with the ways in which MCS, and the BSC in particular, provides organizations with a framework through which they can pursue their pre-existing control and strategic agendas. Through a series of studies of scorecard implementations we see that far more is at stake than the adoption of a simple approach for strategy implementation.

Finally Miller and O'Leary study the ways in which MCS support intra- and interorganizational coordination in the technologically and environmentally uncertain context of Intel. Here again, the detailed study of processes of management control, analysed through the lens of complementarity theory, takes us beyond simple cybernetic models affirming the diversity and subtlety of management control as a means of controlling strategy.

The discussions of management control and strategy in this volume help bring together insights from these various fields, helping to consolidate our understanding of the relationship thus far, as well as helping to map more clearly the areas in which we remain unclear. A consistent theme running through the chapters is that traditional understandings of the relationship between MCS and strategy is at best limited in scope. Traditional models frequently argue against the benefits of MCS in environments and settings in which they nonetheless remain ubiquitous. The chapters that follow develop grounds for understanding why their continued presence may be more than a question of pathological organizational choice. Reviewing what we do know, the chapters that follow more importantly open up new questions at the same time as they suggest new ways of asking old ones. The promise is the development of a far richer understanding of the relationship between MCS and strategy.

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