Chapter 3

Management Control Systems: Contingency Factors

ABSTRACT

This chapter is focused on a fundamental theoretical approach to management control system research, the contingency theory. Reviewing the most prominent research works over the past 30 years, the main insights on the relationships between contingency factors and the appropriate design of MCS are illustrated and discussed. In particular, this chapter assumes the conventional view that considers MCS as passive tools designed to support managerial decision-making and summarizes the effects of endogenous and exogenous variables on the design of MCS and firm’s performance for the achievement of equilibrium conditions.

INTRODUCTION

The contingency-based approach in the field of management control systems (MCS) comprises a wide array of conceptual and empirical research that builds on the fundamental premise of the alignment between MCS, firm’s performance and contingency factors. Scholars have investigated this alignment by considering MCS as both independent and dependent variables. The first research line states that the outcome variables should be the different dimensions of firm’s performance and the ultimate goal of MCS is to provide managers with information useful for the achievement of equilibrium conditions. If equilibrium is reached, then firm’s performance is enhanced.

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Given this assumption, the main focus of research is on the adoption, use and usefulness of MCS, in order to understand how the combination between MCS and contextual factors allow managers to adopt more effective decisions that improve firms’ performance. Consequently, the latter becomes the critical issue of MCS research, together with performance measurement based on economic value analysis and organizational effectiveness. The second research line assumes MCS as the outcome variables and the basic research question is how MCS should be designed to ensure the best alignment with the contingency factors that depict the context within which MCS are employed.

The main contingency factors that have been investigated in MCS literature are: strategy, environmental uncertainty, size, structure, technology and culture. An overview of these contingencies reveals the distinction between endogenous and exogenous factors, where the former are descriptors of the firm’s fundamental characteristics (strategy, size and structure) and the latter focus on contemporary aspects of the firm’s external context (uncertainty, technology and national culture). Over time, both types of contingency factors have been conceptualized and empirically analyzed by researchers with the aim to identify the effects of contingency factors potentially implicated in the design of effective MCS and in the pursuit of firm’s performance. Following the functionalist contingency-based approach, the conceptual premise that informs MCS research since 1980 is that MCS are adopted to support managers in the achievement of the expected organizational outcomes. Therefore, it is important to consider the role of contingency factors in MCS design. A comprehensive review of studies relating MCS to contingencies has confirmed that new insights concerning the role of MCS emerge by adopting a more focused approach on structural arrangements, considering the progress that has been made in the development of novel MCS practices and in the evolution of contingency factors within contemporary settings (Chenhall, 2003). In this body of literature, it is possible to recognize a wide array of studies focused on:

1. The coverage of traditional research areas concerning specific MCS tools and techniques, such as rolling forecasting, target costing, budget slack, variance analysis, capital budgeting, formal budgeting, reliance on accounting performance measures (RAPM);
2. The impact of contemporary innovations in MCS, such as the sophisticated costing technique (ABC, ABM) for the absorption of indirect costs in
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