The role of management control systems in creating competitive advantage: new perspectives

Robert Simons
Harvard University Graduate School of Business Administration

ABSTRACT

For the last two decades, management control systems have been conceptualized in terms of implementing a firm's strategy. This view fails to recognize, however, the power of management control systems in the strategy formulation process. Based on a 2 year field study, a new model is presented to show how interactive management control systems focus organizational attention on strategic uncertainties. This process is examined in two competing firms to illustrate how top managers use formal systems to guide the emergence of new strategies and ensure continuing competitive advantage.

We know surprisingly little about the effects of strategy on management control systems or, alternatively, about how these systems affect strategy. How do top managers actually use planning and control systems to assist in the achievement of organizational goals? What formal processes are emphasized at top management levels where responsibility rests for strategy formulation and implementation? Does the strategy of the firm affect the administrative systems used to set competitive policies?

Most writing on this subject has been normative and not based on analysis of organizational practices; as a result, the function of management control described in accounting literature has changed little since Anthony (1965) defined management control in terms of assuring that organizational objectives are achieved. During the 1960s and 1970s, researchers built on Anthony's work and that of others by attempting to develop the best way to design and use formal systems to help organizations implement their strategies and objectives.

Meanwhile, new directions were emerging in the strategy field. While early normative research had focused on the processes used by managers to develop successful strategies, descriptive research in the 1970s and

© 1990 Pergamon Press plc
early 1980s began to identify patterns and commonalities in the ways that firms compete in different industries (e.g. Mintzberg, 1973a; Utterback & Abernathy, 1975; Miles & Snow, 1978; Porter, 1980). The identification of patterns in strategic activity posed a new question for management control researchers: what is the relationship, if any, between the way a firm competes and the way that it organizes and uses its management control systems?

The few recent studies that have addressed this question indicate that there are systematic differences in management control systems among firms that compete in different ways (e.g. Miller & Friesen, 1982; Govindarajan & Gupta, 1985; Simons, 1987a). But these large sample, cross-sectional studies reveal little about the process of management control in these firms. The studies begin to provide answers to 'how' management control systems differ among firms, but not to 'why' they differ.

As part of a broader research program (Simons, 1987b,c), the present study seeks to address this question directly by focusing on management process as it relates to management control and strategy. The familiar normative approach to management control describes a feedback process of planning, objective setting, monitoring, feedback and corrective action to ensure that outcomes are in accordance with plans. Two attempts have been made in the past to link this framework with strategy. The first is Anthony's (1965, 1988) – strategies are taken as given and management control systems motivate, monitor and report on their implementation. Another attempt to couple strategy and management control can be seen in the concept of strategic control. Strategic control has been described as a system to assess the relevance of the organization's strategy to its goals, and when discrepancies exist, to highlight areas needing attention (Lorange & Scott Morton, 1986, p. 10). Although strategic control has been identified as an important topic of strategic management (Schendel & Hofer, 1979, p. 18), the area has yet to generate a vigorous research program (Shrivastava, 1987). This failure is due in part to a lack of understanding of the relationship between management control systems and strategy.

The view of management control presented in this paper differs from the traditional framework. My research indicates that management control systems are not only important for strategy implementation, but also for strategy formation. I define management control systems, therefore, to recognize that these systems are more than devices of constraint and monitoring: management control systems are the formalized procedures and systems that use information to maintain or alter patterns in organizational activity. Using this definition, these systems broadly include formalized procedures for such things as planning, budgeting, environmental scanning, competitor analyses, performance reporting and evaluation, resource allocation and employee rewards (Simons, 1987a).

Although most strategy theorists correctly recognize that strategy formulation and strategy implementation are interrelated (Andrews, 1980, p. 24), researchers still tend to conceptually separate strategy