



Creating dynamic tensions through a balanced use of management control systems

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A B S T R A C T

This paper explores how organisations balance controlling and enabling uses of management control systems (MCS), and how this balance facilitates the creation of dynamic tensions and unique organisational capabilities. By employing Simons' (1995) levers of control framework in a case study setting, the paper investigates the challenges faced by senior managers when they use MCS simultaneously to direct and empower. The findings indicate a number of factors – internal consistency, logical progression, historical tendency, dominance, and suppression – that impact the capacity of organisations to balance different uses of MCS. The interactive lever of control also plays a significant role in achieving and sustaining a balance between controlling and enabling uses of MCS, and its impact on the other levers is seen to constitute a unique organisational capability in its own right. The findings from this study offer an elaboration of how dynamic tensions are created through managers' attempts to balance controlling and enabling uses of MCS.

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Introduction

Management control systems (MCS) have two complementary and interdependent roles. MCS are used to exert control over the attainment of organisational goals and also to enable employees to search for opportunities and solve problems (Ahrens & Chapman, 2004; Chenhall & Morris, 1995; Simons, 1995; Zimmerman, 2005). These competing roles necessitate a balance between taking actions congruent with the organisation's goals while also giving employees sufficient autonomy to make decisions (Roberts, 1990; Sprinkle, 2003).¹ This balance is determined by a match between problems faced by the organisation and the problem-solving abilities available (Speklé, 2001). When combined, controlling and enabling uses of MC create dynamic tensions that produce unique organisational capabilities and competitive advantages (Henri, 2006b; Widener,

2007). Accordingly, a greater understanding of how organisations balance these different uses in order to create dynamic tensions represents an important area of management control research.

The aims of this paper are to explore how organisations attempt to balance controlling and enabling uses of MCS, and how this balance facilitates the creation of dynamic tensions. A recent stream of literature has yielded valuable insights into the concept of dynamic tension, including how it arises from the inherent conflict between controlling and enabling uses (Marginson, 2002; Simons, 1995); how it influences unique organisational capabilities and performance (Henri, 2006b; Widener, 2007); and how organisations deal with challenges associated with its development and management (Frow, Marginson, & Ogden, 2005; Marginson, 2002). These studies consistently identify the critical role of balance in the creation of dynamic tension, but fall short of elaborating on its nature or on its relation to the creation of dynamic tension.

Organisations face difficulties in balancing different uses of MCS for a number of reasons. Managers are not always able to specify in advance what constitutes an optimal balance because they face a variety of complex

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¹ The literature also refers to this as the problem of 'loose-tight' controls (for example, Merchant, 1985; Van der Stede, 2001) or 'organic-mechanistic' (Chenhall & Morris, 1995).

decisions (Ahrens & Chapman, 2007; Speklé, 2001). In addition, the capacity of organisations to balance controlling and enabling uses of MCS is dependent on specific individual and organisational attributes. These include trust, autonomy, power relations, and professionalism, elements that are difficult to identify and replicate (Alvesson & Kärreman, 2004; Chenhall & Euske, 2007; Euske & Riccaboni, 1999; Frow et al., 2005; Marginson, 2002; Sprinkle, Williamson, & Upton, 2008). Managers also have a natural tendency to use MCS coercively rather than in ways that give employees autonomy in carrying out their activities (Ahrens & Chapman, 2004; Wouters & Wilderom, 2008). An emphasis on coercive use is problematic because it restricts the potential for novel and innovative behaviours that can lead to improvements in long-term performance (Armstrong, 2002; Seal, 2001). On the other hand, enabling use is potentially harmful to organisations that operate in stable environments, because their control processes require established and effective ways of operating (Abernethy & Brownell, 1999; Wouters & Wilderom, 2008). An organisation's inability to balance different uses of MCS is associated with slower decision-making, wasted resources, instability and, ultimately, lower performance (Bisbe, Batista-Foguet, & Chenhall, 2006; Henri, 2006b).

Systematic research into the natures of dynamic tension and balance has been hindered by a unidimensional view of the use of control systems commonly taken by traditional approaches. For example, studies informed by agency theory emphasise the use of coercive forms of control in order to minimise the potential for opportunism and moral hazard (Abernethy & Chua, 1996). Equally, studies based on theories of labour processes regard the enabling use of MCS as another way of implementing control over employees via increased transparency of costs (for example, Armstrong, 2002; Ezzamel, Lilley, & Willmott, 2004; Hopper & Armstrong, 1991). These perspectives explain the competing demands of controlling and enabling use as inevitable but unproductive because they represent wasted effort. A similar emphasis on the controlling use of MCS is adopted by studies that investigate managers' reliance on accounting performance measures (Hartmann, 2000). Contingency-based studies are equally problematic because they take a static and fragmented approach that underspecifies the interrelations between different roles of MCS (Fisher, 1995; Selto, Renner, & Young, 1995). Furthermore, these studies regard managers as passive participants with limited choice in how they use MCS to achieve the organisation's goals, and whose collective behaviour can be optimally designed for any given set of circumstances (Chenhall, 2003). In the same way, studies drawing on resource dependency theories ignore issues relating to power and opportunism, and thus provide limited guidance on how a balance between coercive and enabling uses is influenced by managerial choice and self-interest (Abernethy & Chua, 1996).

The current study investigates the concept of balance by drawing on Simons' (1995) levers of control (LOC) framework. The LOC framework is explicitly concerned with the dual use of MCS to facilitate creativity while simultaneously providing constraints on employees'

behaviour. The concept of balance is a central but largely implicit element in the framework, and its role in the development of dynamic tensions remains under-researched. The findings of the current study are based on qualitative data collected from senior managers in a large financial services organisation. The LOC framework is employed to explore how these managers attempt to balance controlling and enabling uses of MCS in order to generate the dynamic tensions that contribute to the organisation's capabilities.

The paper is organised as follows. The next section presents the conceptual framework on which the study is based. This is followed by a description of the study design and method. The findings are then presented, together with a discussion. Concluding comments are provided in the final section.

The levers of control framework

The controlling role of MCS is associated with predictability, efficiency, formality, and the importance of meeting short-term targets while enabling use of MCS relates to spontaneity, transparency, adaptation, information-sharing, enterprise, and adaptability (Ahrens & Chapman, 2004; Davila, 2000; Henri, 2006a; Van der Stede, 2001; Wouters & Wilderom, 2008). Controlling use aims to mitigate problems of information asymmetry, whereas enabling use seeks to reduce uncertainty and improve decision-making (Sprinkle, 2003). These two uses can be conceptualised as the difference between *ex post* (decision-influencing) and *ex ante* (decision-facilitating) (Zimmerman, 2005).

The LOC framework is a useful analytical tool to explore the concepts of dynamic tension and balance because it is concerned with different uses of MCS rather than their technologies, structure, existence, or design.² Empirical studies in both the management control and management literatures have employed the framework to explain how organisations use their MCS to encourage innovation and learning while simultaneously exerting control over how goals are achieved (for example, Abernethy & Brownell, 1999; Bisbe & Otley, 2004; Bonner, Ruckert, & Walker, 2002; Bruining, Bonnet, & Wright, 2004; Marginson, 2002; Tuomela, 2005). The framework has been used to investigate how organisations leverage their MCS through four key processes – belief, boundaries, diagnostic, and interactive systems – in order to implement business strategies. Together these processes allow experimentation and creativity to flourish, while at the same time providing constraints on employees' behaviour (Simons, 1995).

The framework can be explained as follows. *Beliefs* and values are incorporated into MCS in order to secure commitment towards goals and to inspire employees in their search for opportunities and solutions (Marginson, 2002). Belief systems are an explicit set of organisational definitions that communicate formally the organisation's basic

² MCS design is not an explicit consideration of the LOC framework, but enabling use relies on the underlying design principles of repair, internal transparency, global transparency, and flexibility (Ahrens and Chapman; 2004).

values, purpose and direction (Simons, 1995). These definitions are stated in broad, value-laden terms, because the purpose of a belief system is to inspire organisational search and discovery without prescribing the precise nature of the activities. Any MCS that provides managers with information regarding the organisation's values or priorities can be leveraged as a belief system. For example, the balanced scorecard represents a belief system because of its ability to articulate organisational strategy (Malina & Selto, 2001). Similarly, Roberts (1990) describes how senior managers used a staff conference to communicate the organisation's vision and plans.

Belief systems provide employees with a stable environment, but also play an important role in challenging organisational inertia and political processes through the communication of values and assumptions (Simons, 1995). They publicise to managers the goals and values that may not be reflected in routine MCS, and sanction departure from routine expectations. In this way, they offer an alternative rationale for decision choices and establish the operating paradigm under which the other levers operate (Dent, 1991). Belief systems are important to organisations undergoing change when managers choose to modify or introduce new values and priorities (Bruining et al., 2004; Roberts, 1990). They can equally play a valuable role in knowledge-based organisations where organisational success is reliant on providing an environment in which employees can work together towards overall goals (Abernethy & Vagnoni, 2004). Belief systems are also used by managers operating in uncertain conditions to signal strategic goals to organisational members, enabling them to match their behaviour to desired outcomes (Speklé, 2001). Even when organisational-level belief systems are not directly and immediately relevant to particular employees or sub-units, they still provide a coherent strategic agenda around which employees can group (Ahrens & Chapman, 2004).

MCS are also used to provide *boundaries* in order to restrict opportunity-seeking behaviour. The boundary lever of control is an explicit set of organisational definitions and parameters, expressed in negative or minimum terms (Simons, 1995). By communicating those activities deemed acceptable and those considered off-limits, boundary processes aim to prevent employees from wasting the organisation's resources. They help to direct activities to a meaningful end-point, preventing employees from seeking continual improvements beyond optimal and timely solutions. Any MCS that sets out minimum standards or guidelines for behaviour can be used by managers as a boundary lever of control. Financial data establish boundaries that protect an organisation from financial risk, whereas non-financial data indicate the strategic boundaries within which managers should operate (Tuomela, 2005). Boundary processes represent 'the structure of last resort' (Speklé, 2001, p. 435), because their effectiveness depends on the ex ante cataloguing of acceptable and unacceptable activities.

When MCS are employed *diagnostically*, they are used to compare actual performance against pre-set targets (Abernethy & Brownell, 1999; Simons, 1995, 1999). Managers use MCS in diagnostic ways to identify excep-

tions and deviations from plans. Financial data indicate when targets are being achieved whereas non-financial measures enable managers to monitor and control critical success factors (Abernethy & Lillis, 2001; Perera & Harrison, 1997; Tuomela, 2005). Diagnostic processes represent the traditional use of MCS in which corrective action is taken as a result of feedback received about performance (Fisher, 1995). However, diagnostic use is not simply a constraining influence on managers' behaviour, because monitoring processes highlight problems and motivate managers to achieve their goals, sometimes through novel means (Emsley, 2001; Ittner & Larcker, 1998; Kato, Boer, & Chow, 1995; Norman, 2001).

The *interactive* use of MCS consists of formal two-way processes of communication between managers and subordinates at different levels of the organisation. The purpose of interactive processes is to debate or challenge the underlying assumptions and action plans that drive an organisation's activities. Interactive processes enable organisations to bring together individuals with different sets of information about the organisation's activities (Abernethy & Lillis, 1995; Speklé, 2001). Managers use them to signal organisational priorities and to stimulate the emergence of new strategies (Bisbe & Otley, 2004; Naranjo-Gil & Hartmann, 2007; Simons, 1995). In so doing, managers obtain access to local knowledge that can be used to develop strategic plans (Ahrens & Chapman, 2004; Wouters & Wilderom, 2008). Any MCS that facilitates formal processes of debate can be used interactively. For example, managers involve employees in budgetary processes and the design of performance measurement systems in order to share information and reduce gaps in knowledge (Abernethy & Brownell, 1999; Haas & Kleingeld, 1999; Shields & Shields, 1998). Interactive processes allow managers to keep abreast of the activities of employees, but they also open up debate and discussion in a facilitative, 'non-invasive' way (Bisbe et al., 2006). Mechanisms such as face-to-face meetings and 'strategy days' can be used to discuss and resolve problems, rather than to apportion blame (Frow et al., 2005; Marginson, 1999; Roberts, 1990). In contrast to diagnostic processes, interactive systems require a significant amount of attention by senior managers to remain aware of strategic uncertainties that may affect the attainment of goals (Bisbe & Otley, 2004; Marginson, 2002). For this reason, interactive processes tend to be time-consuming and costly (Widener, 2007).

It is important to study the interrelations between the different uses of MCS because the increased use of one lever of control enhances the benefits attained from increasing the use of the other levers (Widener, 2007). Together, the levers of control generate a "dynamic tension between opportunistic innovation and predictable goal achievement that is essential for positive growth" (Simons, 1995, p. 153). Dynamic tensions arising from the interrelations between the levers of control facilitate the development of organisational capabilities such as innovativeness, organisational learning, entrepreneurship, and market orientation that together contribute to organisational performance (Henri, 2006b). For instance, managers use diagnostic processes to facilitate and structure interactive

debate in order to produce new organisational strategies or solutions (Emsley, 2001; Haas & Kleingeld, 1999; Widener, 2007). Diagnostic and boundary processes act as mutual reinforcers by providing employees with guidelines and targets (Simons, 1995). Similarly, strategic plans that are communicated as part of a belief system are given specific meaning and purpose when managers convert them into measurable success factors (Bhimani & Langfield-Smith, 2007; Marginson, 1999). Used together, interactive processes and belief systems facilitate innovation, promote stability, and increase employee commitment to the organisation's vision (Bisbe & Otley, 2004; Tuomela, 2005). Similarly, managers combine boundary and belief systems to articulate limits around the strategic opportunities available to an organisation (Roberts, 1990).

The tension is 'dynamic' because there are continual and varied strategic forces acting both internally and externally that disturb the relative emphasis of the different levers (Bruining et al., 2004; Henri, 2006b). These forces are encapsulated in a set of organisational conflicts that impact the capacity of organisations to balance controlling and enabling uses of MCS. One such conflict is apparent in the distinction between the use of MCS for the control over individuals versus their use for identifying problems and reducing uncertainty (Ditillo, 2004; Wouters & Wilderom, 2008). Another conflict arises when managers are presented with many opportunities, but have only a limited amount of attention (Simons, 1995). Organisations also face a conflict between the desire of employees to contribute to the organisation versus self-interests that are incompatible with the organisation's goals (Abernethy & Vagnoni, 2004; Simons, 1995; Ezzamel, Wilmott, & Worthington, 2008). This could arise when employees take greater risks in order to attain their goals and increase their personal rewards (Sprinkle et al., 2008). A conflict between controlling and enabling uses is also apparent when emerging strategic ideas challenge existing plans (Seal, 2001).

The concept of balance is an important but largely implicit element in the LOC framework. Managers use the four levers to balance the requirement for control with the need for innovation and learning. They do so in order to manage the inherent organisational conflicts and thus generate dynamic tensions that influence the development of organisational capabilities. For example, they need to implement planned strategies while also allowing new strategies to emerge. An imbalance between the levers can lead to unintended consequences. Too great a focus on interactive processes can de-stabilise an organisation by generating continual change or by preventing employees' from carrying out their activities, but failure to challenge strategic plans can conceal the need for change (Bonner et al., 2002; Dent, 1991). Interactive processes may be underutilised by focusing on managing employee relations rather than on constructive dialogue that challenges existing assumptions (Bisbe et al., 2006; Roberts, 1990; Speklé, 2001). Poor use of diagnostic processes can result in a lack of focus, while excessive use can inhibit innovation and creativity (Henri, 2006b). Similarly, rigid boundary processes can prevent employees from seeking alternative, and possibly higher-reward, solutions (Sprinkle et al., 2008).

In summary, the concept of balance is crucial to understanding how managers use MCS in both controlling and enabling ways in order to generate dynamic tensions. The LOC framework focuses on the different uses of MCS in the achievement of strategic objectives. It is therefore an analytically powerful tool with which to investigate the following areas of interest:

1. How do managers attempt to balance controlling and enabling uses of MCS?
2. What affects an organisation's capacity to balance controlling and enabling uses of MCS?
3. What is the nature of the relation between a balanced use of MCS and dynamic tensions?

Study design and method

The study responds to calls in the literature for qualitative research that provides insights into different uses of MCS and their interrelations (Ahrens & Chapman, 2007). The effectiveness of MCS is properly evaluated in terms of their combined effects, requiring a holistic view of the controls used by organisations (Alvesson & Kärreman, 2004; Fisher, 1995; Langfield-Smith, 1997). This avoids the problems associated with different definitions of specific MCS because the focus is on the nature of the relations between them (Luft & Shields, 2003). A case study method was employed in order to facilitate an understanding of the role of a common set of controls within a single organisation (Ahrens & Dent, 1998; Birnberg, 1999; Hopwood, 1983; Otley, 1999).

Research site

The study was conducted in the European headquarters of a highly successful multinational financial services organisation, henceforth referred to as FinServ. At the time of the study FinServ employed more than 80 000 employees worldwide and earned net income of £1.8 billion on total revenues of £15.9 billion. FinServ is an appropriate research site for several reasons. The levers of control are best explored in a large organisation because smaller firms can alter patterns of behaviour through more informal means (Simons, 1995). As a market leader, FinServ is well regarded in the industry for its innovation and capacity to respond quickly to new challenges, suggesting that its MCS are influential in the attainment of its goals. FinServ's formal MCS are comprehensive and systemic, and have been developed over a number of years from its own global best practices. These MCS are used by managers in their efforts to achieve the organisation's goals. The factors outlined above suggest an interesting and appropriate research site in which to study the simultaneous use of MCS in controlling and enabling ways.

Initial access was enhanced by the researcher's prior employment within the organisation. This raises the potential for bias caused by lack of distance in interpreting events (McCracken, 1988). Contact with the organisation had ceased several years prior to data collection, resulting in some distance from the prevailing culture, structure,

and general business processes. In fact, gaining the trust and tolerance of interviewees are imperatives in field work. Both are facilitated by previous employment in the research site and also serve to enhance the validity of the study (Anderson, 1995; Minichiello, Aroni, Timewell, & Alexander, 1995).

Data sources

Although the LOC framework was derived primarily from observations of corporate executives, its relevance is not restricted to the highest levels of management (for example, Simons, 1995, p. 161, 191). The approach taken in the current study is consistent with a tradition of empirical studies that have explored the role of control systems in facilitating the attainment of organisational objectives at operational level (for example, Archer & Otley, 1991; Daniel & Reitsberger, 1991; Marginson, 2002). This approach is increasingly valid in the contemporary management context of employee empowerment and reduced layers of line management (Langfield-Smith, 1997; Otley, 1994). Managers below the level of corporate executive play a crucial role in identifying and generating new initiatives and in using MCS in different ways to achieve the organisation's objectives (Ahrens & Chapman, 2004).

Data were collected from both primary and secondary sources in the form of semi-structured interviews and archival documentation. The level of management selected for interview straddles the strategic and operational levels of the organisation. Their job title within FinServ is 'director', and they are also the departmental cost centre managers.³ Their goals are derived directly from the organisation's key objectives and they use a range of MCS to manage the activities of their subordinates, who are managers and other employees. Access was initially requested and granted for the two largest divisions, Information Technologies (IT) and Customer Servicing (CS). However, a large-scale redundancy programme was implemented across the organisation immediately prior to the first interviews. Access to the remaining divisions was postponed indefinitely because senior executives were concerned about employee morale. Consequently, the interview guide was structured to produce relatively short (1 h) but highly focused interviews with the directors in the two initial divisions, with an agreement to follow-up by phone if required. Prior knowledge of the organisation proved advantageous in keeping the duration of these interviews to a workable length by providing a frame of reference for current structures and processes (Anderson, 1995).⁴ The purpose of the interviews was to

gain insights into how the directors simultaneously used the different levers of control in attempting to implement organisational strategy. A copy of the interview guide used with the directors is shown in Appendix A. This guide was also used with the informants, adapted as necessary.

The IT and CS divisions together account for approximately 50% of all employees and 65% of all operational expenses in the research site. The IT division is responsible for all technological developments in the organisation. At the time of the study annual expenses were in excess of £80 million and employees numbered more than 450. The CS division resolves all issues relating to external customers including those associated with risk losses. Operational expenses are in excess of £100 million and employees numbered more than 1100. With an average of £15 million per department, the directors are responsible for the implementation of FinServ's strategic priorities. The entire available population of eight directors within each division participated in the study.⁵ Eight informants from the Finance and Project Office functions, staff groups external to the two divisions, were also included in order to provide additional insights and to increase the validity and reliability of the data (Abernethy, Chua, Luckett, & Selto, 1999; McKinnon, 1988; Yin, 2003).⁶

Strategic goals are communicated by the directors to managers and other employees through two documents: the Strategic Planning Report and Divisional Operating Plan. These documents are prepared on an annual basis, immediately prior to the start of each financial year. The Strategic Planning Report provides information on the key objectives to be achieved in the current year, and shows how these objectives are linked to the division's longer-term strategic goals. It derives from the annual Strategic Planning Process, a three month process which precedes the start of each new financial year and is the primary means for debating and agreeing the strategic plans for the coming year. The Divisional Operating Plan is the final element of the process. It is linked to the Divisional Planning & Budgeting Guidelines that establish the overall guidelines within which the annual planning process should operate. The Divisional Operating Plan contains detailed calendarised budgets for each department. Achievement of annual financial targets across all projects and responsibilities accounts for approximately 50% of managers' total goals. Internal customer goals (satisfaction and project deliverables) and employee goals (including aspects such as employee satisfaction) each have a 25% weighting. These weightings are decided by the directors at the beginning of the year. An element of subjective assessment related to, for example, quality and effectiveness, is therefore contained in the non-financial goals. Attainment of the annual target results in the payment of individual bonuses. Failure to achieve monthly targets is accompanied by increased scrutiny over the

³ Following a review of FinServ's cost centre structure, cost centre ownership had been consolidated to a level of management higher than in prior years. While this significantly increased the scope of responsibility of each cost centre manager, it reduced the overall number of cost centres within each division, and therefore the number of potential participants. This supports the notion that control and hierarchical levels are not static (Otley, 1994).

⁴ For example, the interview transcripts contain numerous acronyms and in-house terminology that require familiarity with the organisation's key activities and processes in order to make the data intelligible. This process of 'learning the ropes' (Minichiello et al., 1995, p. 165) can add substantially to the length of an interview.

⁵ One director in the IT division had left by the time the study began, and had not been replaced.

⁶ Informants were recommended by the Chief Financial Officer based on their working knowledge of the two divisions. This information was not available from organisation charts.

managers' activities through, for example, more frequent meetings.

The interviews were audio-taped and then transcribed verbatim and in full (McCracken, 1988). The length of employment with FinServ ranged from 2 years to 15 years. The length of time in current positions ranged from two and a half months to five years among the directors and from nine months to four years among the informants. The inclusion of several 'newcomers' has the potential to uncover practices that longer serving employees might take for granted (McKinnon, 1988). Demographic data for all participants, including departmental size, and length of time in current position, are included in Appendix B. A summary of the findings was presented to each Divisional Head for comment and to correct any factual errors. Both Heads accepted the findings without requesting any changes.

Internal validity and reliability were enhanced by cross-referencing interview data against a variety of archival documentation (Minichiello et al., 1995; Yin, 2003). A summary of these documents and how they were used by the directors in terms of the LOC framework are shown in Appendices C and D. Documents including cost centre variance reports, divisional operating plans, and personal goals, were offered or recommended by the directors or informants. More general documentation, such as the organisation's mission statement and Code of Conduct, were readily available from various places including notice boards, in the annual reports, and on the company's website. Overall, no obvious restrictions were placed on access to FinServ's documentation.

Operationalising the levers of control framework

Prior studies have taken various approaches to operationalising the LOC framework. One stream of research has considered the framework in its entirety (for example, Bruining et al., 2004; Tuomela, 2005; Widener, 2007), while another has focused exclusively on the diagnostic and interactive levers (for example, Abernethy & Brownell, 1999; Bisbe & Otley, 2004; Henri, 2006b; Kober, Ng, & Paul, 2007). A second methodological choice concerns the selection of MCS used to investigate the LOC framework. While a non-specific package of organisational controls has been investigated by a number of studies (for example, Bruining et al., 2004; Widener, 2007), other researchers have focused on a particular MCS. This latter category includes studies examining the framework in relation to performance measurement systems (Henri, 2006b; Tuomela, 2005), budgets (Abernethy & Brownell, 1999), and variance analysis (Emsley, 2001).

The current study considers the entire LOC framework in relation to the complete 'package' of MCS used by the directors. It is important to study the framework in its entirety because balance and dynamic tension derive from the interrelations between the levers (Henri, 2006a; Simons, 1995). Isolating parts of the framework ignores the interplay between the four different uses of MCS. A partial deployment of the framework may also fail to delineate the levers adequately, leading to a conflation of attributes, and potentially resulting in incomplete or

inaccurate constructs. For example, interactive processes and boundary systems each curb innovation excesses, but do so in different ways (Bisbe & Otley, 2004; Henri, 2006b).

The investigation of a non-specific package of MCS facilitates an understanding of the nature of different uses of MCS (Abernethy & Chua, 1996; Chenhall & Langfield-Smith, 1998; Otley, 1999). For example, the MCS selected for investigation may not be the one that is used interactively at the time the study is conducted (Simons, 1995). Also, different aspects of a lever may be evidenced with different MCS. For example, interactive use of performance measurement systems can be used to select appropriate critical success factors (Tuomela, 2005), while interactive use of other MCS can be used to debate strategic uncertainties (for example, Bisbe & Otley, 2004; Bruining et al., 2004).

In the current study, the directors were questioned on their use of MCS. The MCS and the levers of control were thus identified during the data collection process rather than as *ex ante* mechanisms of control. In order to ensure that the levers were operationalised and coded in a consistent and reliable manner, each construct was conceptualised in terms of: (1) its properties or qualities; (2) its effects on organisational processes; and (3) its intended consequences in relation to organisational outcomes (Marginson, 2002). The extant literature was used to specify the domain of observables related to the constructs (Abernethy et al., 1999), but the absence of consistently developed instruments for all four levers necessitated a simultaneous process of instrument development and data coding (Eisenhardt, 1989; Minichiello et al., 1995). Table 1 indicates how each lever was delineated along the three dimensions listed above.

Prior studies utilising the levers of control framework have focused on the *presence* of the levers within an organisation. However, initial analysis of the data indicated that the *absence* of levers is equally important. Absence occurs through either suppression or omission. In the current study, a control lever is categorised as 'present' if there is evidence of its use and as 'suppressed' if its absence was specifically noted by participants. Levers of control were not always either present or suppressed; sometimes they were simply not mentioned by interviewees. That is, the *omission* of a particular lever does not necessarily indicate that it was *not* an influencing factor; but that its effects are not evident from the data.

Data analysis

The threat of analytical bias inherent in the use of qualitative data was addressed by a systematic approach to data reduction, classification, and interpretation (Miles & Huberman, 1994; Yin, 2003). A case study protocol and database were developed in order to establish an audit trail of procedures carried out (Miles & Huberman, 1994). A qualitative software package (NUD*IST) was used to code the data and to ensure that there was no selective choice of data in developing the study's findings (Abernethy et al., 1999; Richards & Richards, 2000). The first stage involved coding the responses to ascertain which levers of control were being mobilised. The levers of control are

Table 1

The properties, effects, and intended outcomes of the levers of control.

Lever of control	Properties	Effects	Intended outcomes
Belief (Bruining et al., 2004; Marginson, 2002; Simons, 1995)	Tangible and/or visible design features: <ul style="list-style-type: none"> – Missions, visions, credos 	Organisational values and priorities are communicated	Shared vision and values Workforce is inspired and motivated
Boundary (Bruining et al., 2004; Simons, 1995; Tuomela, 2005)	Tangible and/or visible design features: <ul style="list-style-type: none"> – Activities explicitly categorised as 'off-limits' – Existence and enforcement of sanctions for business conduct – Existence and enforcement of strategic boundaries 	Employee behaviour constrained within specified limits Employees understand the strategic risks that must be avoided or minimised	Employees operate within specific constraints
Diagnostic (Abernethy & Brownell, 1999; Henri, 2006b; Simons, 1990; Simons, 1995)	Feedback and measurement systems involving: <ul style="list-style-type: none"> – Score-keeping – The use of deviations from set standards as the basis for monitoring and feedback – Review of key measures and critical success factors – Senior managers involved on an exception basis only – Explicit rewards 	Progress towards goals tracked and actions adapted where necessary	Achievement of critical success factors
Interactive (Abernethy and Brownell, 1999; Abernethy and Lillis, 1995; Bisbe & Otley, 2004; Bisbe et al., 2006; Bruining et al., 2004; Emsley, 2001; Henri, 2006a; Roberts, 1990; Simons, 1990; Simons, 1995)	Feedback and measurement systems involving: <ul style="list-style-type: none"> – Processes of challenge and debate – Regular and intensive use by and between senior and junior managers – Integrative liaison devices – Focus on strategic uncertainties – Facilitative, non-invasive approach to decision-making – Selection by senior managers 	<ul style="list-style-type: none"> – Assumptions on which data are based are questioned and revised – Meanings are shared and created – Tensions materialise – Strategies are fine-tuned – Emergence of new strategies – Changes are discussed and debated 	Employees understand the strategic uncertainties - the potential threats and opportunities that could significantly alter the current operating environment, and render organisational assumptions invalid

independent, so that any number of them might be used by the directors simultaneously at any one time.

The coded data were then analysed through the use of a thematic conceptual matrix to enable the observation of patterns and provide a disciplined approach to organising the data (Lillis, 2002; Miles & Huberman, 1994). Six underlying themes emerged, representing the key issues on which the directors focused. Three of these issues were common to both divisions, two were unique to the IT division, and one related to the CS division only, giving nine individual cases in total. In the interests of brevity, the following section describes the influences of the levers of control in just two out of the nine individual cases studied. Together, these two cases exemplify the dynamic tensions that can emerge when managers use MCS in both controlling and enabling ways, and provide useful insights into the concept of a balance between the levers. Analysis of the remaining cases indicated data saturation was achieved by focusing on these two cases (Ahrens & Dent, 1998; Eisenhardt, 1989). Both cases described occurred within the IT division, facilitating a comparison of how the levers of control were used by the same individuals in two different situations.

The findings reported in this paper represent the highly summarised output of a detailed analysis conducted on the extensive data collected (Lillis, 2002). The findings are fully auditable back to the original data taken from the transcripts and documents. A summary table of the data set referred to in this paper is shown in [Appendix E](#).

Findings and discussion

This section presents the findings from two cases in FinServ that illustrate the challenges faced by the directors in their simultaneous use of MCS to direct and to empower their managers. The first case centres on the set of normal business activities carried out by the IT division, while the second case discusses a specific project that was completed immediately prior to the start of the study. Each case begins with a brief introduction, followed by a discussion of how the directors used the levers of control in attempting to achieve their goals. This leads into an analysis of the interrelation between managers' attempts to balance controlling and enabling uses of the MCS in order to manage the inherent organisational conflicts and to generate dynamic tensions. The final part of this section draws on the findings to present theoretical insights into the concept of balance.

Case 1: Optimising the IT division's goals

Background

The IT division's primary responsibility is to develop and implement large-scale IT projects on behalf of other divisions within FinServ. The directors agree these projects with their internal customers during the annual Strategic Planning Process. Each department has an operating expense budget, but also has a target for recovering their

expenses from their internal customers. The IT division cannot therefore simply pass its costs onto its internal customers but must also ensure that costs remain within an agreed budget. For example, if a department remains within budget but a large proportion of expenses are deemed non-chargeable, then it will not achieve its recovery target. Equally, it can achieve its recovery target but fail to meet the budget by exceeding its agreed expenditure:

“[The key goals are] make the budget, make the recovery targets and get the projects in on time... And is it more important to hit the budget target or hit your recovery target? We need to do both, so it’s a constant juggling act trying to keep the two in alignment.” (Director 6)

Thus, each department in the IT division has a number of goals that must be optimised if all of them are to be achieved.

How the directors use the levers of control to achieve FinServ’s goals

Traditional controlling use of MCS by the directors is evidenced through the communication of the plans and goals to the managers. They use the Strategic Planning Report and the Divisional Operating Plan to provide an overview of each project together with explicit guidelines that specify the required outcomes for each project in terms of expenditure (the maximum to be spent), key deliverables (minimum standards to be attained in line with customer requirements), and timeframe for implementation. The relations between the various operating constraints that govern each project were explained by one director:

“More scope means more cost and greater time-to-market, less cost means less scope and may or may not have an impact on time-to-market. Time-to-market could have a very big impact on both scope and cost...they are not really conflicts, they are merely parameters which you need to manage.” (Director 5)

These constraints are an inevitable consequence of the limited resources available. But the directors also provide the managers with sufficient opportunities to propose alternative solutions. This is done by providing them with minimum acceptable levels for each of the non-financial deliverables that allows them to seek optimal ways to achieve their goals within the overall budget. In line with the findings in prior studies, the directors establish the limits within which managers are expected to operate, but are also able to exploit the more detailed and local knowledge of employees at lower levels of the organisation (for example, Ahrens & Chapman, 2004; Haas & Kleingeld, 1999; Wouters & Wilderom, 2008). The operating boundaries are matched with boundary processes aimed at protecting the organisation from financial risk:

“We have a set of cost boundaries and it’s a constant reinforcement of the principles and the boundaries... If there is demand for additional functionality, then we will assimilate the impact that will have on forecasts and budgets. And then we take that impact and if it can be contained

within the existing parameters, existing function levels, existing plan, we move forward... [W]e are trying to drive all three [constraints] and it means rigorous control at the front end.” (Director 4)

In addition to these front-end boundary processes, the progress of each project is closely monitored. Diagnostic processes are represented by monthly meetings between the directors and their respective groups of managers during which they examine and discuss key variances from the plans.⁷ Monthly performance is tracked through the operating expense system to compare actual expenditure against budget. This provides a crucial link with the boundary systems, so that the managers are permitted to search for opportunities and solutions within explicit limits (Simons, 1995).

Prior studies have found that senior managers use enabling mechanisms in order to motivate employees to implement an organisation’s strategic priorities (for example, Alvesson & Kärreman, 2004; Bruining et al., 2004; Marginson, 2002; Simons, 1995). This is apparent in the IT division through the directors’ collective use of the Divisional Operating Plan, the Strategic Planning Process and individual goals for each manager that together are used to communicate the division’s mission statement and key priorities. In particular, the directors rely on a key belief system, the FinServ Values, to motivate and inspire their managers in their attempts to achieve each department’s goals:

“I think that people often go back to the FinServ Values - integrity, openness, honesty. Things that we should expect people to do, but it’s pervasive in the FinServ culture. You can always remind somebody, even the senior people, that they’re not behaving in the ‘FinServ way’.” (Director 8)

The FinServ Values are an explicit set of guiding principles under which all employees are expected to operate.⁸ One informant expressed confidence in the way in which the IT directors integrate these into the division’s other activities:

“There are company guidelines and principles, and IT definitely adheres to them stronger than any other group.” (Informant 4)⁹

⁷ Diagnostic processes are theoretically differentiated from interactive processes by their focus on exceptions rather than the use of regular meetings (Simons, 1995). However, in practice large operating expense budgets inevitably lead to major monthly variances that require regular discussion. The regularity of the meetings at FinServ (i.e. weekly or monthly, depending on the type of process or activity) is driven by the variance and exception reporting. These meetings therefore tend to cover both diagnostic and interactive processes.

⁸ The FinServ values are replicated in various forms, such as large posters hung in each department’s area, and are also included at the front of all divisional and departmental documents. They had been established for approximately ten years prior to the study.

⁹ In fact, similar views were also evident from the data collected from the Customer Services division. This informant worked exclusively with the IT division, and therefore his knowledge of other areas of the business was second-hand and somewhat biased! His views are indicative of the excellent relationships that existed between the Project Office and each area of the business that they supported.

This belief system is connected to interactive processes through the annual Strategic Planning Process, which is used to debate and discuss the following year's plans. The directors aim to provide the managers with the overall purpose and mission for the division by framing all strategic goals within the FinServ Values. For example, the Values are physically contained within the written output of the Strategic Planning Process, called the Strategic Planning Report, so that employees can see how each strategic goal is aligned with the Values. The directors connect the belief systems to diagnostic processes in clearly identifiable ways:

"FinServ's values are the basis for appraisal and performance measurement, and there is an absolute direct link in terms of the words and everything else. If you just saw those on the wall, they are no different to any other company's values, but in FinServ they are the basis and all the other stuff comes off them." (Director 3)

This ensures that that the strategic plans are translated into measurable success factors. Other enabling processes, in the form of regular review meetings involving the divisional head and the directors, were used during the year to provide opportunities to debate potential problems for each project and discuss possible solutions:

"[The directors] would then look at the impact of what would happen if we were to instigate that change, what would be the impact on all the parties involved, with timings and also with financials?" Because the change process is so important, and it does have quite often a major financial impact on a weekly basis – sometimes as much as \$250,000 in one go...R sits down with all his [directors] and they decide there and then." (Informant 3)

This interactive system operates through a formal process called the Product Development Process (PDP). If a project is estimated to cost more than originally budgeted, the manager responsible has the discretion to negotiate with his or her internal customers in order to reallocate funds from another project. Customer-focused goals encourage the managers to resolve problems directly with their customers, rather than involving the directors. These diagnostic processes are a direct means of evaluating customer satisfaction, but are also a lead indicator for monitoring progress against the targets for project deliverables. For example, if customers express dissatisfaction with an aspect of any particular project, this signals to the directors that the project deliverables might be at risk, and encourages them to use interactive processes to resolve any problems. The directors give ongoing responsibility for the PDP to staff from the Project Office, which is external to the IT division. As relatively independent participants, but with detailed knowledge of the operational activities of the division, the Project Office staff are able to question and challenge the departmental managers on specific issues. The directors rely on the PDP to provide them with valid information about the status of each project.

The departmental strategic plans and associated budgets are therefore intended to provide managers with guidelines within which they must operate, but also to give

them some discretion to decide how the goals should be achieved. Overall, these processes appear to work effectively. The IT division has a track record of achieving its quarterly and annual goals. It is regarded by informants from both Finance and the Project Office as well run and efficient, and of being responsive to its internal customers. However, one director noted her concern about the short-term focus of the business:

"[W]e never...go back after we've implemented something and see if it did actually generate the revenue it was supposed to, or the cost saving it was supposed to...The company culture is all about moving on and it's not about measuring what we've actually achieved...It often means that you are forced to cut corners and put in less than optimal solutions...The costs of making those decisions over time magnify, because you just make it more and more difficult to put change into the [IT] system you've got." (Director 6)

The directors use the levers in both controlling and enabling ways that facilitate the attainment of short-term goals by empowering the managers to search for 'optimal' solutions. However, these solutions are contained within each annual budgeting period with little focus on the longer-term impact of these solutions. This situation is reinforced by the acknowledged suppression of interactive processes with the potential to stimulate debate about the apparent disconnect between the annual focus and the longer-term strategic objectives. The suppression of longer-term monitoring and feedback processes is a further inhibitor. Table 2 below summarises the above discussion by showing how the levers of control are mobilised through the four key MCS used by the directors. All four levers of control are evident in the directors' combined use of these MCS, although interactive processes are mobilised only through the annual use of the Strategic Planning Process.

Fig. 1 provides a diagrammatic representation of the dynamic relations between the levers of control in the goal optimisation problem.¹⁰ The enabling approach underpinning the annual planning process facilitates debate about the strategy for the forthcoming year. The strategic objectives are then translated into detailed plans (boundary systems) and performance targets (diagnostic processes). They are used in both coercive and enabling ways to give the managers some discretion in how they achieve their goals. The various interrelations between the levers of control appears to lead to favourable performance in each annual period, but there are concerns about the longer-term impact due to the absence of interactive processes outside the annual process.

Creating dynamic tensions through the balanced use of MCS

The directors combine controlling and enabling uses of the various MCS in ways that facilitate the attainment of

¹⁰ The diagrams shown in Fig. 1 and 2 are plausible representations of the relations between the levers of control. They are not intended to be complete or to assert causality; their purpose is to indicate interrelations, and hence potential sources of tension, between the different uses of the MCS.

Table 2
Goal optimisation: The MCS and the associated levers of control.

Management control system	Lever of control	How used	Implication
Strategic planning process/Strategic Planning Report	Belief	Communicates the organisation's values and key strategic priorities for the division	Provides the overarching strategy and values within which managers are expected to operate
	Boundary	Provides details of key deliverables for each project	Managers given limits within which to operate
	Interactive	Annual process to establish and set constraints for the projects to be undertaken during the year. Suppressed over longer term	No opportunity to debate during the year; longer-term solutions overshadowed by emphasis on short-term cost minimisation
Divisional planning and budgeting guidelines/divisional operating plan	Belief	Provides managers with divisional objectives for the coming year	Links the vision and priorities to specific goals
	Interactive	Annual process to discuss divisional strategy and ensure that it is aligned with organisational strategy	Managers are given opportunities to debate priorities at the beginning of and also during each year, but there are no interactive processes that discuss longer-term strategy
Product development process	Boundary	Identifies changes to project specifications during the year so that managers work within new constraints	Managers given up-to-date information on limits
	Interactive	Regular review meetings to discuss changes	Managers debate changes
Operating expense system	Boundary	Specific and detailed budgets for each project provide managers with limits	Managers discouraged from engaging in excessive search behaviour
	Diagnostic	Departmental cost performance measured against budgeted amounts. Suppressed over longer term.	Annual performance was an insufficient length of time to evaluate impact of major technological changes on the business

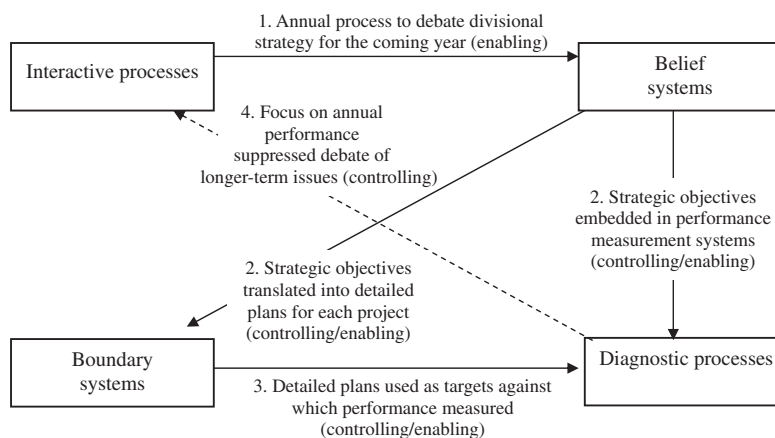


Fig. 1. Goal optimisation: The interrelations between the different uses of the MCS. Solid lines represent the *presence* of a control lever as described by managers. Dotted lines indicate the *suppression* of a control lever as described by managers.

the IT division's annual goals. They provide the managers with broad constraints within which they are expected to operate, but balance this by allowing them to search for alternative solutions that generate dynamic tensions and so facilitate the development of FinServ's creative and innovative capabilities.

"I think by having the controls there and setting [the managers] targets, it does actually mean that [the managers] can get pretty creative. . . I don't necessarily believe it holds them back, because they can be told they've only got a particular amount of money. . . They will then go out and see whether they can source it in a different way, or is there a new system out there. . . I don't believe it unduly puts a damper on their creativity." (Informant 4)

The combined influence of the diagnostic and boundary control levers focused on the attainment of annual goals provides a strong restraining influence on the strategic aims of innovation and creativity espoused through the belief systems. The importance of resisting the dominance of short-term performance over longer-term creativity and innovation was acknowledged by two of the directors:

"When people are looking at things and they are thinking, 'we don't have time, we can't afford it', they stop thinking creatively, they stop exploring ways to make it work within existing boundaries." (Director 4)

"Autonomy means that you also have people who are continuously pushing at the processes and principles because

they got an idea and they've figured they would really like to see this idea happen, and then they get less inclined to be worried about what the operating principles are. . . you have to try to bring them back to the processes and principles. . . [but] you don't want to stop good business from happening simply by virtue of following a process." (Director 5)

The goal optimisation case presents evidence of various sources of dynamic tension. The directors are responsible for a large number of projects but have limited time to devote to each. They use diagnostic processes to focus on exceptions, and mobilise interactive processes to help them understand the nature of these problems. A second potential source of conflict is evident in the use of MCS to control and evaluate the managers but also to manage the various departmental activities. The directors deal with this by using diagnostic and boundary processes to provide constraints around managers' behaviours, but balance this with the enabling use of the belief systems to encourage the managers to seek optimal solutions:

"Getting things done is more about taking into effect the processes that you need to go through, adopting those components of the processes which deliver the value to me as an individual that are the most important, and focusing our effort on getting those things done quickly, which means bypassing some of the traditional ways in which we do things. Not in an unhealthy or risky manner, but in a way that enables us to do things much more quickly. And we are always being constrained by our processes." (Director 2)

The inherent conflict between the need to encourage staff to contribute while also ensuring there were limited opportunities for self-interested behaviour was alluded to by one director:

"We've got quite a few processes. . . which help protect both us and the business if you follow them with a certain amount of due diligence. And if you unwind any of that stuff then you really do open yourself up and create some exposures, not only to you for not operating to principles, but also you expose the business to hurting itself. [But] there are very few restrictions, otherwise you'd never get anything done. To the extent that you can understand the problems and then decide 'I've figured the best solutions are this and this', then you have the scope and the capability generally speaking to get on and deal with it as you need. . . otherwise you'd have this major uncertainty and then no freedom by which to deal with it." (Director 5)

The inclusion of a subjective element of goal performance that accounts for half of each manager's total goals explicitly acknowledges the inherent organisational conflict arising between the attainment of annual financial goals versus those relating to personal behaviours and effectiveness. In addition, the directors use the various MCS interactively to combine their global knowledge with the managers' local knowledge in order to provide opportunities for productive dynamic tension to derive from the conflict between intended plans and emergent strategies. The directors use the PDP to allow new strategic ideas

to emerge during the year in response to changing conditions. Goals are not treated as fixed, but can be re-prioritised or altered when appropriate given changing conditions or increased levels of uncertainty. These goals are discussed and debated on a regular basis during each annual period. The suppression of longer-term debate is related to the pressures associated with achieving the annual goals:

"One thing FinServ is good at is confronting issues. And we do that in a fairly disciplined, and quite often, collaborative and co-operative way. . . I don't think there are any no-go areas. . . I think that there are issues that we don't deal with very well, or where we could do better. I think we fail because we are probably too busy." (Director 8)

Case 2: Pricing of activities prior to an outsourcing decision

Background

In order to achieve a significant reduction in costs the IT division's senior management team had previously approved a decision to outsource 90% of all activities and costs within the following two years. The directors would remain employed, but their roles would change to negotiating and managing various relationships with the suppliers. A large number of their staff had already changed jobs or left the company. The remaining managers would be offered redeployment within FinServ and were therefore not expected to resist the changes.

The managers had been given responsibility for analysing the existing cost base for each department's activities and for recommending a price at which the business could be offered to a potential outsourcing partner. Each director decided the price at which to invite the preferred suppliers to bid for the business, and entered into negotiations with them. Within a few months the monthly operating expense results for all departments indicated that the planned savings were failing to materialise. One informant observed:

"[Savings] were supposed to be [made] by outsourcing various projects. It hasn't been working so far to date. . . There is possibly a bit of concern now about how efficient outsourced work will be." (Informant 2)

How the directors used the levers of control to achieve FinServ's goals

The IT directors and Finance staff jointly established an annual amount of savings to be achieved through outsourcing in the next financial year, and produced monthly financial targets for each department. These targets formed the basis of individual goals passed down to the each manager and were reinforced by separate volume-based targets that specified the amount of each activity that was to be outsourced by the end of the year. Diagnostic processes for this project were thus a highly visible and standard part of each director's approach to managing his or her department. These traditional forms of coercive control were complemented by the directors' use of belief systems to inspire employees to engage with the outsourcing decision. For example, the Strategic Planning Report included

information on outsourcing as a strategic priority. The importance of this strategy was articulated by one informant:

“The emphasis this year was very much on outsourcing - what do you want to deliver with outsourcing, and what saves can we deliver?” (Informant 2)

This message was also communicated via other mechanisms. These included formal presentations in departmental meetings, and the introduction of artefacts such as posters, drinking mugs, and coasters, each imprinted with information and slogans promoting the outsourcing strategy and its aims.¹¹ In this way, the directors subjected the departmental managers to a strong and consistent message about the strategic importance of outsourcing.

The belief and diagnostic processes were reinforced by boundary systems that restricted the managers' search behaviour. The managers were required to propose an appropriate price for offering each department's activities to an outsourcing partner based on an analysis of the existing costs. There was little evidence of controls being used in enabling ways in this stage of the process, as the managers were given no scope to debate the underlying assumption of the use of outsourcing as the means to reduce expenses, nor were they permitted to explore other options.

When the monthly operating expense results across several departments began to indicate that the planned savings would not be achieved, the diagnostic processes revealed that two key pieces of information had been omitted during the pricing process. The first omission was a poor understanding of the relative inefficiencies of FinServ's activities, resulting in too high a starting price during negotiations. One director explained:

“We should have actually said, ‘what is the minimum amount of people that we can do this with?’, then go to OutsourceCo and say ‘can you match what we can do it for?’ And we didn't. We went to OutsourceCo with the highest number of resources so we didn't start in a very good position.” (Director 1)

In addition, a short-term but substantial amount of unanticipated cost was incurred during the handover period while processes were being run concurrently in the two organisations:

“[W]e made no allowance for any kind of communication issues between ourselves and the subcontractors. We also significantly underestimated the amount of time it would take the offshore team to do the work. So... if you look at the analysis phase, the amount that OutsourceCo are charging us in hours is significantly in excess of what we had expected to be charged.” (Director 6)

Together the quotes indicate the inadequate ways in which the boundary systems were mobilised by all the directors. The directors had not focussed sufficiently on the outsourcing problem, and the omissions were not iden-

tified by the managers. When corporate executives finally realised that the IT Division would fail to meet its annual budget by a substantial margin, they ordered a review by a team of external consultants. This team confirmed that there had been serious deficiencies in the analytical and negotiating processes surrounding the outsourcing project, leading to very few constraints around the managers' involvement in the pricing process:

“There is insufficient clarity/guidance as to the level of discretion that can be exercised by the [managers] in defining and negotiating the scope of work.” (External Consultancy Review)

Thus, the directors used the levers of control in enabling ways by allowing the managers autonomy in their approach to the pricing decision, even though the strategy was entirely novel and had not previously been undertaken in the IT division. On the other hand, the directors presented outsourcing as the sole means to achieve the planned level of financial savings despite the managers' knowledge of the division and its operations. The intention was to prevent the managers from expending time and effort seeking alternative means to reduce costs other than the agreed strategy of outsourcing, but this also inhibited them from debating the intended strategy and seeking alternative options, as identified by an informant:

“[T]hey are being forced down that path... Because they are so heavily targeted on these financials, outsourcing is the only way to go... It is in itself a conflict that your goals are set on the basis of achieving a financial target and, if you think better of it, if you think that we need to go a bit more slowly, you're not going to reach your financial targets, you're not going to get your financial reward, nor is your boss.” (Informant 1)

The belief and boundary systems were reinforced by diagnostic processes that focused on both the amount of costs to be saved each month and the specific volumes to be outsourced. These various constraints hindered the managers by imposing time pressures that restricted their ability to understand and analyse fully the existing cost bases before selecting an appropriate price at which to outsource. It prevented the managers from recommending, for example, that outsourcing be delayed until later in the year, with the potential for greater savings from more rigorous analysis. Furthermore, although outsourcing had already taken place in other areas of FinServ, the managers were unable to utilise this knowledge because of the time pressures imposed by the diagnostic processes. Although the directors had allocated a proportion of managers' goals to the overall quality of the pricing process, the dominant emphasis on the attainment of the various outsourcing targets led the managers to focus on achieving their monthly results rather than seeking additional assistance.

The problem was exacerbated by the absence of interactive processes both across and within departments that might have prevented the uncoordinated and fragmented nature of the pricing decision. There were no processes to facilitate debate and discussion about the appropriate way to implement the strategy, or even to discuss the rationale behind the decision. Even though weekly

¹¹ These artefacts were highly visible to outsiders visiting the organisation. This organisational practice is common in FinServ during programmes of organisational change.

meetings were held at director and manager level to discuss key departmental issues, the outsourcing pricing process was not identified as a major concern at divisional level until it became apparent that all departments were experiencing the same problems. Although all the departments were involved in the outsourcing process, the problem did not materialise for several months because there was no single point at which a majority of them were all engaged in an outsourcing decision. Consequently it never appeared to be a significant divisional activity, and therefore was not identified as a systematic problem. The directors were simply unaware that their individual and collective outsourcing decisions were problematic until presented with the monthly results.

So why did the directors fail to mobilise interactive processes to help them with the pricing decision? Senior managers can generally focus interactively on only one MCS at a time (Simons, 1995); the data collected from various divisional documents indicates that attention was focused on the imminent implementation of several important IT projects in which all the departments were involved.¹² The directors agreed that there had been individual and collective failures in developing a rigorous and co-ordinated approach both within and across departments, resulting in systematic errors in the pricing process across the whole division and a poor performance against the budgets.¹³ The data also highlight the apparent openness in the desire of the directors to seek out the underlying reasons for the poor results. The investigations and subsequent discussions were conducted in a collective spirit of concern for the outcome. The directors' acceptance of the systematic nature of the failure indicates a working environment that fostered problem-solving behaviours.¹⁴

In summary, the evidence indicates that the directors used the MCS in coercive ways when enabling ways would have been more beneficial and vice versa. The outcome was a poor performance against the budgeted expenses and uncertainty as to whether outsourcing would deliver the planned savings. The key MCS used in the outsourcing pricing decision and the associated levers of control for the outsourcing pricing process are summarised in Table 3 below. The Divisional Operating Plan was used to provide managers with the overall direction, but also presented outsourcing as the sole means to achieve the planned savings, while the Operating Expense System specified the timeframes, targets, and goals to be achieved. The directors used belief, boundary, and diagnostic processes to ensure that the outsourcing process was undertaken to the specified timeframes, but the poor financial results

were inevitable without sufficient interactive processes to question and challenge the decision and the process.

The various interrelations between the levers of control in the outsourcing pricing process are shown as a diagrammatic representation in Fig. 2, indicating the approximate order in which the role of the levers became relevant to the process and whether they were used in controlling or enabling ways. First, the directors suppressed interactive processes, so that the managers had no opportunities to challenge the rationale behind the outsourcing decision expressed in the belief systems. The belief systems were then used to ensure that diagnostic and boundary processes were aligned with the outsourcing decision. The targets imposed through the diagnostic systems encouraged managers to establish their own analytical tools. Finally, interactive processes were introduced only when the aggregated results identified the extent of the problem. The diagram illustrates how the belief, boundary and diagnostic processes were linked in mutually reinforcing ways that resulted in poor outcomes.

Creating dynamic tensions through the balanced use of MCS

The initial stages of the pricing project required MCS to be used in enabling ways in order to generate ideas and discussion, while coercive controls would have been more appropriate in the latter stages in order to ensure that the goals were achieved. Instead, the managers were given tight financial targets before the project had been properly scoped, but very little guidance on how to analyse the existing costs. The external consultants brought into review the outsourcing pricing process identified the inherent conflict between the controlling use of MCS to manage short-term costs versus the enabling use of MCS to manage the strategic aspects of outsourcing:

"There is a dichotomy between the stated FinServ objectives (strong long-term partnerships with reduced costs) and the current practice (micro-management and short statements of work)."

The poor outcomes were not simply the result of a general tendency to favour coercive rather than enabling controls. Rather, the evidence suggests a failure on the part of the directors to balance controlling and enabling uses of the levers. The various MCS were not used in ways conducive to the attainment of desired outcomes, and the combined effect led to poor results. From a short-term perspective, the outsourcing process compares unfavourably with the goal optimisation case discussed previously, in which the same group of directors balanced controlling and enabling uses of MCS to generate dynamic tensions and achieve their short-term goals.

Managing organisational conflicts and creating dynamic tensions

In contrast to the previous case concerning the optimisation of goals, there is little evidence that the directors developed productive tensions through their use of MCS in the outsourcing pricing decision. For example, there was no apparent conflict between their limited attention and available opportunities because they were

¹² These documents indicate that the outsourcing process, while important, was expected to be a discrete and short-lived project that would not interfere with other major ongoing activities.

¹³ The budgeted savings were not based on superior knowledge of the correct process that the directors should have undertaken, but were sufficiently aggressive that they could only have been achieved by better analyses and a co-ordinated approach.

¹⁴ This working environment has been heavily influenced by the introduction ten years previously of various employee-focused initiatives, including the annual Employee Satisfaction Survey. All corporate and senior executives are held, and seen to be held, publicly accountable for these results, which are published at divisional level.

Table 3
Outsourcing pricing process: The MCS and the associated levers of control.

Management control system	Lever of control	How deployed	Implications
Divisional planning and budgeting guidelines/ divisional operating plan	Belief	Formal commitment to reduce cost base significantly via outsourcing	Managers given purpose, direction, and means
	Boundary	Outsourcing presented as the sole acceptable means to achieve short- and long-term savings	Managers are implicitly informed that alternatives to outsourcing as a means to reduce costs are not available for discussion
	Interactive	Annual process to agree divisional strategy of outsourcing and ensure that it is aligned with organisational strategy	No opportunity to debate or challenge objectives or priorities during the year
Operating expense system	Boundary	Provides both financial targets and timeframes for outsourcing	Managers given no opportunity to outsource according to their own judgement
	Diagnostic	Monthly performance compared against budgeted amounts	Monthly targets prevented managers from seeking optimal solution over the full year or longer-term
	Interactive	Suppressed	The directors' attention was focused on normal business activities, so their intervention in the process was minimal

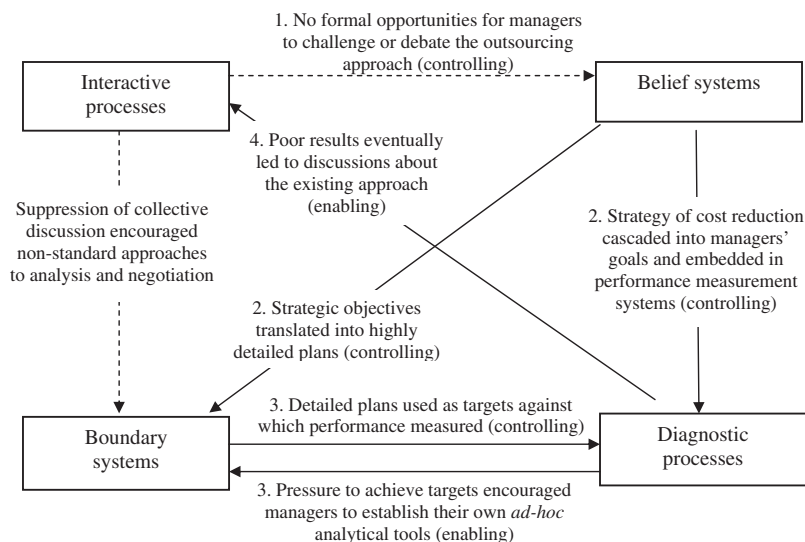


Fig. 2. Outsourcing pricing process: The interrelations between the different uses of the MCS. Solid lines represent the presence of a control lever as described by managers. Dotted lines indicate the suppression of a control lever as described by managers.

predominantly concerned with the normal day-to-day business of developing and maintaining FinServ's IT systems. They regarded the outsourcing decision as a discrete project that could be absorbed within the division's normal activities. Consequently, the managers were given a substantial amount of discretion in dealing with the pricing decision, with little direct involvement or intervention by the directors. Equally, the directors removed any potential for productive tensions between intended and emergent plans by imposing both financial targets and the use of outsourcing to achieve the savings. Innovation was thus inhibited by the controlling use of MCS.

The data also indicate little evidence of conflict arising between the uses of MCS to manage activities versus their use in managing individuals, in this case between the use of MCS as both boundary and diagnostic processes. The managers were given targets, timeframes, and clear direc-

tion, and set out to achieve them. The MCS could have been used in more enabling ways by involving the managers in the outsourcing decision, potentially leading to alternative solutions to the requirement to reduce expenses.

The only evident organisational conflict in this case is between self-interest versus a desire to contribute. Essentially, the directors gave the managers a choice between demonstrating their commitment to outsourcing, and earning short-term rewards, versus following their long-term beliefs about protecting the business. One informant described the conflict between the coercive nature of the belief and diagnostic controls against a desire to contribute to the organisation's long-term goals:

"I think there's a lot of integrity in the people we have at FinServ, and think even though in many cases their personal financial rewards might be damaged, I think that

they'll protect the brand by only moving certain decision-making elements of these projects out to outsourced people when they think the outsourced people are able to cope. But there is a danger that they might push it out too quickly.” (Informant 2)

The main protection against a purely short-term attitude comes from the strong belief systems described earlier. This supports prior studies that have found that reward systems linked to performance play a limited role in aligning such conflicts, because they can lead to satisficing or sub-optimal decision-making (for example, *Iltner & Larcker, 1998*). Furthermore, rewards are not sufficient to build a long-term commitment to collective goals (*Roberts, 1990*).

Overall, productive tensions were minimised by the ways in which the directors used the levers of control. Their emphasis on coercive controls when enabling controls would have been more appropriate in the early stages of the outsourcing process prevented the development of tensions that could have led to discussions about the intended strategy. Equally, the use of enabling controls in the latter stages provided managers with opportunities to follow their own approach, when more directive controls could have guided the financial aspects of the process to ensure that the goals would be met – or at least highlight earlier on that the goals were unlikely to be achieved. Tensions between different uses of MCS is a source of enhanced performance and competitive advantage for organisations (*Henri, 2006b; Simons, 1987; Simons, 1995*). The absence of tensions in this case foreshadows the difficulties that FinServ would subsequently face in achieving its desired outcomes in the pricing process.

The concept of balance

The directors' use of MCS in Case 1 demonstrates their ability to balance the different uses of MCS in the short-term in order to manage the inherent organisational conflicts that give rise to dynamic tensions. In contrast, Case 2 provides evidence of the difficulties faced by these same senior managers in balancing controlling and enabling uses during a short-term project. Two directors indicated that this was potentially a longer-term problem associated with their collective use of MCS:

“We have cycles where we get more controlling and then we have cycles when we get less controlling.” (Director 6)

“There is a genuine attempt on the part of the IT division to facilitate creativity. We don't do it well yet, but there is an enormous amount of energy going into trying to encourage that, and the leadership behaviours are very positive in that direction. It's about trying to encourage people to push, to question, to break down the barriers, but culturally that will take an awful long time to do.” (Director 8)

The collective experiences of these senior managers illustrate the problems faced by organisations in their attempts to balance controlling and enabling uses of MCS. A stated aim of this paper is to understand the factors that affect an organisation's ability to balance the different uses of MCS. Analysis of the data suggests several relevant

issues. While the influence and effects of some of these factors are evident in prior literature, their role in assisting or inhibiting managers in their attempts to balance different uses of MCS has not previously been identified or explained. These factors are discussed below.

(i) *Internal consistency*: Internal consistency plays an important role in balancing the different uses of MCS by ensuring that employees receive clear and coherent messages about the importance of particular organisational imperatives and priorities. For example, in the absence of internally consistent belief systems employees will have little sense of common purpose and will attempt to align values and controls in their own way (*Flamholtz, 1983*). The outsourcing case shows how the directors' use of MCS was internally consistent in the short-term. The belief system established a vision that outsourcing would produce significant savings, and this was reflected in diagnostic processes that measured performance against pre-set targets for outsourcing, and in boundary systems that established other activities as off-limits. Interactive processes were suppressed, and therefore could not influence the internal consistency between the remaining three levers. The poor financial results were inevitable, given the internal consistency of the messages communicated to the managers through the various levers of control. The existence of internal consistency is most easily identified by examining the belief systems and investigating whether these are reflected in the other levers of control. This is because an organisation's vision and purpose facilitate a coherent approach to organisational activities (*Flamholtz, 1983; Henri, 2006a; Simons, 1994*).

The role of internal consistency in ensuring a balance between different uses of MCS is apparent in prior studies. For example, organisational changes involving a new problem-solving approach (*Emsley, 2001*), a shift from a business to an economic rationale (*Dent, 1991*), a new emphasis on entrepreneurialism (*Knights & Willmott, 1993*), and the primacy of customer satisfaction (*Ahrens & Chapman, 2004*) are all implicitly dependent on an internally consistent message communicated through the levers of control. Similarly, *Seal's (2001)* study of GEC/Marconi illustrates how a change in focus from financial diversification to strategic coherence was facilitated by a carefully managed shift in the balance between short-term goals and longer-term strategic ideals.

While the findings presented in this study indicate that FinServ's belief systems exerted a powerful influence over the remaining levers of control, both cases highlight an inconsistency between the use of the levers in relation to short-term goals versus longer-term strategic priorities. FinServ's diagnostic processes focused on short-term annual efficiencies. Longer-term inefficiencies were an inherent part of the organisation's operating paradigm and represented an inconsistency in the short-term application of the levers compared with the strategic goals expressed in the belief systems. This problem was not apparent by examining information from any MCS because it remained the tacit knowledge of employees who were aware of the longer-term impact of inefficiencies in existing processes. A similar example is evident in *Roberts' (1990)* longitudinal study. The study illustrates how the

long-term survival of an organisation is placed at risk if short-term financial performance is based on different underlying principles than those communicated through strategic goals, in this case market share and positioning. Similarly, *Chenhall and Euske (2007)* demonstrate how a belief system that supports behaviours inconsistent with planned strategic change can affect the implementation of a new system. Their study illustrates how a conscious and concerted effort by senior managers to match the new belief system of cross-functional effectiveness to the new strategic approach is required before managerial commitment can be obtained.

(ii) *Logical progression*: The evidence from Case 1 indicates that internal consistency is a necessary but not sufficient factor that affects the ability of managers to balance their use of MCS. A second factor is a temporal aspect, referred to in this study as logical progression, which captures the order in which the levers are used. *Figs. 1 and 2*, presented earlier, attempt to relate the notion of logical progression to the different uses of MCS. The findings suggest that this plays an important role in influencing the outcomes. For example, in Case 1, the use of the belief systems to promote outsourcing as the means to achieve large savings was problematic because interactive processes had not previously been used to identify and debate alternative solutions.

Logical progression occurs naturally as part of an organisation's life-cycle, but is also relevant to organisations operating in stable or changing environments (for example, *Bonner et al., 2002; Simons, 2000*). It is particularly crucial for organisations undergoing strategic change (for example, *Abernethy & Brownell, 1999; Chenhall & Euske, 2007; Knights & Willmott, 1993; Seal, 2001; Simons, 1999*), when interactive processes allows new ideas to be challenged and debated prior to the implementation of new strategies (for example, *Kober et al., 2007; Naranjo-Gil & Hartmann, 2007*). Change is more likely to lead to desired outcomes if interactive processes are mobilised before diagnostic and boundaries processes become 'hard-wired' into the organisation. If interactive processes are used after the other levers, senior managers will be tempted to seek acceptance of ideas and plans that have previously been agreed and may already be underway, thus stifling discussion, as demonstrated in *Roberts' (1990)* study.

When strategic plans have been debated and challenged, belief systems are then used to communicate a new vision or purpose (for example, *Marginson, 1999*). Studies by *Bruining et al. (2004)*, and *Dent (1991)* illustrate how diagnostic and boundary processes are re-configured in line with the new direction communicated through the belief systems. Similarly, *Euske & Riccaboni's (1999)* study describes how senior managers may shift the emphasis from boundary processes providing regulatory control to diagnostic processes that measure financial returns to shareholders. *Kober et al. (2007)* describe how a renewed focus on boundary processes in the form of bureaucratic controls was used to attain quality accreditation and so provide differentiation from key competitors. In contrast, if new belief systems are immediately followed by changes to boundary and diagnostic processes,

then opportunities to mobilise interactive processes are limited.

The findings from the current study indicate that logical progression is influenced by two inter-related factors, dominance and historical tendency.

(iii) *Dominance/historical tendency*: Dominance is evidenced when one or more of the levers persistently determine the use of the remaining levers, regardless of the specific organisational circumstances. For example, a strong emphasis on diagnostic processes will inhibit innovation and so is likely to impact long-term performance (*Armstrong, 2002; Ittner & Larcker, 1998; Seal, 2001*). In Case 1, the IT Division's attempts to achieve its short-term goals jeopardised its attempts to achieve optimal longer-term performance. The dominance of individual levers is partly dependent on an historical tendency towards certain patterns of use of the levers, as noted in the quote at the beginning of this section referring to cycles of controlling and enabling use.

The dominant effects of controlling use can be channelled into shaping, rather than inhibiting, emergent strategies (*Ahrens & Chapman, 2004*). Belief systems in particular are central both in driving change and also in maintaining an ongoing focus on an organisation's key priorities. Studies by *Roberts (1990)*, *Dent (1991)*, *Knights and Willmott (1993)*, and *Ezzamel et al. (2004)* each explore how a financial rationale gradually came to dominate previous approaches of, respectively, market positioning, operational strategies, paternalistic complacency, and an engineering focus. *Chenhall & Euske's (2007)* study illustrates how a change in an organisation's belief system needs to be pervasive and sustained over time in order to support new strategic initiatives. In contrast, *Marginson's (1999)* study of a large communications company demonstrates how a historical tendency, in this case against the use of tight diagnostic controls, can prevail even in the face of underperformance. Dominance can derive from the preferences of individual managers. For example, some managers may favour an emphasis on diagnostic processes to ensure the attainment of strategic goals while others prefer to use boundary processes to manage inputs and the transformation process (*Ahrens & Chapman, 2004; Roberts, 1990*). Such patterns of use can become established over time. Dominance may also be based on the characteristics of particular groups of managers. For example, members of professional groups have shared values and attitudes that influence their particular use of MCS (*Abernethy & Vagnoni, 2004; Alvesson & Kärreman, 2004; Chenhall & Euske, 2007; Naranjo-Gil & Hartmann, 2007; Wouters & Wilderom, 2008*).

(iv) *Suppression*: The flipside of dominance is suppression. While prior studies have concentrated on the use of MCS to direct and to empower, the findings from the current case study illustrate how the suppression of MCS plays an equally crucial role in the balance between these different uses. *FinServ's* directors were highly experienced, and operated in an environment that supported their attempts to achieve the organisation's goals. Yet in some instances they were unable to prevent the suppression of particular levers of control, particularly interactive and longer-term diagnostic processes. While the directors were

able to identify suppression and its effects, they viewed it as part of a larger organisational problem that they were not necessarily able to correct. The suppression of these MCS reduced the organisational conflict between FinServ's short-term goals and longer-term strategic priorities by prioritising the former over the latter. This may have been intentional at the organisational level in order to achieve the all-important annual goals. However, managers recognise that the complexities and pressures of organisational life, compounded by their bounded rationality, can prevent them from making optimal decisions in their daily use – and absence of use – of MCS (Bhimani & Langfield-Smith, 2007).

The literature provides examples of suppression resulting from time pressures, or conscious or political acts. For example, Roberts (1990) considers how a conference was used purportedly to generate discussion, but was actually designed to ensure that debate and challenges were carefully managed to the executive's agenda of short-term profitability, indicating that interactive processes were actively suppressed. Similarly, Seal's (2001) study provides an example of suppression that arises from cultural norms and hierarchical processes of control. However, the same study also shows that while the suppression of interactive processes affects an organisation's ability to balance different uses of MCS, it also facilitates long-term stability and continuity. Suppression is less likely when managers encourage employees to bring their local knowledge into the decision-making process (for example, Ahrens & Chapman, 2004; Wouters & Wilderom, 2008).

(v) *Relations between interactive processes and the remaining levers of control:* The evidence suggests that interactive processes play a crucial role in creating and maintaining a balance between the remaining levers. Their criticality is partly due to their role in information processing, because they allow managers to integrate accounting, operational, and strategic concerns (Chapman, 1997). They enable the potential of the remaining levers to be realised, and are vital in determining the nature of the interrelations between all four. They can also de-stabilise an organisation by calling into question the very assumptions on which an organisation's operating paradigm is based. In this way, interactive processes pose a threat to the stability provided by belief systems. This risk was minimised in FinServ by restricting such challenges to specific periods, such as during the annual planning process. This approach carries the risk that strategic uncertainties and threats are addressed at the convenience of senior management and established organisational processes, rather than at the most appropriate time for the organisation.

The use of interactive processes in relation to the other levers is evidently problematic for managers. They use belief systems in tangible ways through artefacts and written mission statements, and mobilise diagnostic and boundary processes through the usual systematic processes of MCS. In contrast, interactive use of MCS is dependent on many organisational and individual factors that complicate successful deployment, including cultural attributes, the perceived usefulness of MCS, and power relations (Alvesson & Kärreman, 2004; Euske & Riccaboni, 1999; Naranjo-Gil & Hartmann, 2007). The exact use of

mechanisms that managers employ to mobilise interactive processes, and their effects on the remaining levers, represents a unique capability for each organisation. The evidence from the current study suggests that this capability is difficult to manage and to change.

In summary, the findings presented in this paper indicate that organisations struggle to balance different uses of MCS, and shed light on the difficulties faced by organisations in their attempts to balance different uses of MCS. The study illustrates how a balance between the levers of control provides the necessary conditions for productive tensions to materialise, and presents some factors that affect an organisation's ability to balance controlling and enabling uses of MCS.

Concluding comments

Prior research has investigated the relation between dynamic tensions generated from competing uses of MCS and the development of unique organisational capabilities. This literature identifies, but does not address, the critical role of a balance between controlling and enabling uses of MCS in the creation of dynamic tensions. The current study has sought to explore how organisations attempt to balance controlling and enabling uses of MCS, and how this facilitates the creation of dynamic tensions.

The findings from the current study indicate that balance, rather than dynamic tension, is directly determined by managerial uses of MCS. Balance presents a complex challenge for organisations. The simultaneous use of MCS to direct and to empower requires purposeful intervention by senior managers in order to create the conditions in which productive tensions can emerge. Balancing these competing demands represents a unique capability because each manager faces an individual set of choices in how they use the levers of control to manage inherent organisational conflicts. These choices are influenced by a range of individual and organisational factors that have immediate consequences for the capacity of an organisation to generate dynamic tensions. The findings from this study thus offer an elaboration of how dynamic tensions are created through the balance between controlling and enabling uses of MCS.

The current study contributes to extant literature by identifying a number of factors – internal consistency, logical progression, historical tendency, dominance, and suppression – that influence an organisation's capacity to balance controlling and enabling uses of MCS. These factors have not previously been systematically considered in relation to the concept of balance. The relation between interactive processes and the other levers of control is of particular importance in managers' attempts to simultaneously direct and empower employees. The ways in which the interactive lever of control combines with the other levers constitutes a critical differentiator for organisations by enabling them to develop and exploit unique organisational capabilities. The limited attention of managers means that they can use only one MCS interactively at a time (Simons, 1995; Simons, 1999), so selection and

use of the 'correct' MCS for interactive use are crucially important.

While prior studies have investigated the dysfunctional consequences when MCS are used inappropriately, the current study demonstrates how interactions between different uses of MCS are potentially impacted as much by 'absence of use' as by 'inappropriate use'. Suppression occurs when managers fail for a variety of reasons to employ a particular lever of control, and it impacts their ability to balance the remaining levers. It affects the interrelations between the levers of control by reducing managers' ability to deal with inherent organisational conflicts, thus limiting the opportunities for dynamic tensions to develop. Suppression therefore has an inherently controlling effect. Managers are able to identify the suppression of MCS, but their ability to prevent it is constrained by the broader and complex organisational context in which they operate. However, the suppression of MCS at an organisational level may represent rational behaviour for organisations that must achieve particular processes or goals in order to satisfy their stakeholders. Understanding how and when the use of MCS is suppressed provides additional insights into the interrelations between different uses of MCS and the subsequent implications for organisational performance.

The findings from the current study suggest that the factors listed above are not a self-evident part of organisational life. A balance between competing uses of MCS is not an objective in itself nor is it a static concept; managers seek to balance controlling and enabling uses of MCS, but their efforts are constantly thwarted by shifting priorities, complex problems, and new information. The complexities of organisational life impact significantly on the knowledge and skills possessed by individual managers, causing them considerable difficulty in balancing different uses of MCS. They must also remain vigilant against pressures to use MCS in controlling ways that inhibit creativity and innovation (Armstrong, 2002; Seal, 2001). However, it is the idiosyncratic nature of these challenges and subsequent attempts to balance controlling and enabling uses of MCS that generates the dynamic tensions leading to unique organisational capabilities.

The current study contributes to a small but growing stream of research concerned with the overall nature of the LOC framework and the relations between its various elements. While recent studies have attempted to enhance our understanding of individual levers, the current study underlines the importance of using the framework in its entirety in order to gain a comprehensive understanding of the interface between managers and MCS in their attempts to guide, direct, and control organisational activities. Furthermore, the study indicates the importance of noting and understanding the absence or suppression of MCS in investigating their collective influence and effects.

The study is subject to several potential limitations. While the use of a case study method and qualitative techniques are appropriate for investigating complex relations, this necessarily restricts the generalisability of the research findings (Abernethy et al., 1999; Merchant & Simons, 1986; Miles & Huberman, 1994; Yin, 2003). This study aimed to produce a plausible account of the different

uses of MCS in a single organisation (Ahrens & Chapman, 2006), but the data were taken from a small sample, and the findings should therefore be treated with caution. In addition, the process of data analysis represents a set of choices made by the researcher, and therefore the findings are subject to the usual analytical and interpretative biases inherent in undertaking qualitative research. These were minimised as far as possible by the adoption of protocols for data collection and analysis. Also, the exploratory and cross-sectional nature of the research design precludes any claims for the direction of causality in the relations between the various levers of control. For example, it is not possible to ascertain whether strong belief systems prevent the establishment of suitable boundary systems, or whether the absence of suitable boundary systems provides managers with excessive freedom in interpreting the belief systems. In fact, the evidence suggests that the relations are complex and multi-directional.

The findings of the study suggest avenues for further research on the relation between controlling and enabling uses of MCS. The study derives a number of factors that facilitate or hinder managers' attempts to balance the levers of control. Further research is required to ascertain the extent to which these factors are valid in other organisations, and to test formally the relation between a balance between different uses of MCS, dynamic tension, and organisational capabilities or performance. Future research might also focus on whether organisations can find an 'optimal' balance and how they might recognise it. While previous studies indicate that organisational change offers an opportunity to alter the nature and use of MCS (for example, Bruining et al., 2004; Chenhall & Euske, 2007; Dent, 1991; Seal, 2001; Simons, 1994), it is not clear how organisations can effect this under normal operating conditions. This indicates a need for longitudinal studies investigating how organisations balance controlling and enabling uses of MCS over the longer-term. Investigation is also warranted into how design impacts the nature of the interrelations between the levers. For example, how do diagnostic processes that provide 'tight' targets for a variety of measures impact on the use of boundary systems? The current study has indicated that the suppression of MCS is an important factor in the capacity of organisations to balance different uses of MCS. Further research could explore the issue of suppression in greater depth, in order to enhance our understanding of the influences on the use of MCS.

While recent studies have sought to unravel the complex nature of the interactive level of control, the current study indicates that further investigation is also required into the use of the interactive lever of control in relation to the remaining three levers. For example, what stimulates a change to the interactive use of a different MCS under conditions of relative stability? In addition, social processes play a major role in the use of interactive controls (Marginson, 1999), suggesting further research into the effect of informal controls on the use of MCS. The implications for information and communication infrastructures that can facilitate the interactive use MCS also remain unclear (Hartmann & Vaassen, 2003). Finally, the study interviewed a single level of senior management in

a large multinational organisation. Future research could investigate how managers at different levels attempt to balance controlling and enabling uses of MCS.

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Appendix A. Interview Guide use with the directors (adapted for informants as appropriate)

A.1. Part 1 – Context and responsibilities

What are your key responsibilities? What drives the work in your department? How easy is it to plan ahead? How much impact is there from other areas of the business?

What are your key goals? To what extent is each one reflected in your formal written goals?

How do they relate to the goals of the business unit? How do they relate to the goals of other departments in the business unit?

Do they change? If so, how frequently? How much input do you have in changing them?

Are you aware of any conflicting goals? Are any of them unachievable?

Do you have team goals? How do these operate?

Dealing with problems, such as:

- cuts to operating expense budgets
- business engineering projects
- unforeseen/uncontrollable events
- other

Prompts:

- ask Finance to resolve
- escalate issue to senior manager
- seek further information – from which systems?
- use systems/processes (SOPs, benchmarking, etc.)

What aspects of the systems/processes do you think work well for you? Poorly?

Are you aware of any disconnects?

Have you had to introduce any processes or systems in order to get around any problems? What sorts of problems were they? (lack of information, proof).

What changes, if any, have come about as a result of this process? Why? If none, why? What sorts of changes are they?

What has been the outcome of the actions that you took? Was this what you expected?

How does this situation compare with your normal activities within the department?

Was this an unusual situation? If so, why?

A.2. Part 2 – Levers of Control

Ways in which the company’s systems and processes might influence how you make decisions:

Organisational factors that encourage you or other managers to be experimental / creative / innovative when seeking to achieve your financial goals? In what ways?

Organisational factors that prevent you or your colleagues from being innovative/creative/experimental? In what ways?

Prompts:

- company processes/systems
- ad hoc processes/systems
- overall company objectives or policies
- company values/norms
- internal politics
- accessibility/availability of information
- achievement of personal goals

Appendix B. Demographic data

	IT division	CS division		
<i>Participants</i>				
- Directors	8	8		
- Informants	5	3		
<i>Size of cost centres by No. of employees</i>				
<50	5	0		
51–60	1	2		
61–70	1	2		
71–80	0	0		
80–100	0	0		
101–130	0	2		
131–280	1	0		
281–290	0	1		
291–340	0	0		
341–350	0	1		
	8	8		
<i>Size of cost centres £Mn.</i>				
0–10	3	2		
11–20	5	5		
21–30	0	1		
	8	8		
	Mean	Range	Mean	Range
<i>Cost centre managers</i>				
- Length of service in company (years)	8.8	2–15	12.4	2–22
- Length of time in current position (years)	1.5	2.5–5	4.3	1.5–5

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Appendix B (continued)

	Mean	Range	Mean	Range
– Interview duration (min)	64	55–75	71	55–80
<i>Informants</i>				
– Length of service in company (years)	22	12–26	13	5.5–18
– Length of time in current position	1.5 years	9 months–24 years	2.5 years	1.5–4 years
– Interview duration (min)	59	50–85	60	55–70

Appendix C. Company documentation

The following archival documentation was used in the current study.

- *Divisional Planning and Budgeting Guidelines*
This is a standard and important document for all divisions within FinServ. It establishes the overall guidelines within which the planning process should operate:
“This document will be the evolving source to house our corporate knowledge and will be kept in our corporate knowledge repository.” (p. 4)
The key features are:
 - Directives on in-scope versus out-of-scope activities (Appendix, p.17).
 - Preliminary aggregated budget targets for the core activities, indicating in particular the acceptable change in total expenditure from the previous year (p.2, p.5, Appendix, p.8)
 - Information on the key drivers, extent of controllable versus uncontrollable costs, key assumptions (Appendix, p.10, Appendix, p.18)
 - Planning instructions, including instructions and key dates for submitting information on projects and budgets (pp. 5–9, Appendix, pp. 66–76)
 - Principles to guide and improve the annual planning process: “Leaders in the business, finance and IT [CS] divisions will meet regularly throughout the process to align and agree on volume assumptions, planning guidelines, constraints and initiatives.” (Appendix, p.4)
- *Divisional Operating Plan*
This document sets out the operating budget and key activities for each area, product, and type of expenditure by month.

- *Divisional Goals*
The goals derive directly from the divisional operating plan. They provide detailed objectives and targets for the division as a whole, and for the various grades of employee within it. The first page of the goals lists FinServ’s strategic imperatives, thus linking these to the specific objectives. This document is a formal and explicit statement of the primary aims of the division’s senior management.
- *FinServ Company Annual Report*
Each Annual Report contains details on FinServ’s strategic vision and key objectives for the next five years, including key challenges. The Report is distributed to all employees, providing them with comparative information for internally circulated documents, and thus enabling them to assess the consistency of different communications.
- *Code of Conduct Booklet*
This brochure constitutes a formal communication of the Company’s requirements for business conduct. It begins with a list of the organisation’s overarching values, thus explicitly contrasting the relation between the strategic vision and those behaviours deemed unacceptable in achieving it. Since the company need to safeguard against violations of the Code, the final section provided information on disciplinary action. FinServ’s intranet is used to update employees on specific issues, such as money laundering, throughout the year.
- *Information Technologies Review: Internal Customer Briefing*
This report is produced quarterly with the intention of communicating the division’s performance and plans to its internal customers. It sets out the division’s vision for its customer-driven plans and presents explicit objectives against which its performance can be compared for the full financial year. These objectives, or ‘performance dimensions’, include financial targets (for example, productivity gains of 5 per cent), non-financial quantitative targets (for example, systems availability of 98 per cent), and statements of intent (for example, “full explanations provided for actual monthly charges” (p.3)). The remainder of the document provides information on performance to date, with the aim of making the division’s results transparent to its internal customers.
No equivalent document exists for the CS division, since their customer base is largely external.
- *The Outsourcing Market – Trends and Directions*
This document was commissioned by the IT division’s senior management after the failure of the outsourcing pricing process. The report combined an overview of current industry trends with an audit of the division’s management of the outsourcing processes, together with recommended changes based on current industry best practices.

Appendix D. Summary of archival documentation in relation to the levers of control

MCS	Belief systems leveraged through:	Boundary systems leveraged through:	Diagnostic processes leveraged through:	Interactive processes leveraged through:
Strategic planning report	Presents the strategic goals, key objectives, and overall vision	Establishes acceptable activities, so providing strategic conduct boundaries within which managers are expected to operate	n/a – focus is on direction and purpose rather than on monitoring	Represents the output of discussion and debate regarding objectives and key strategic priorities
Divisional planning and budgeting guidelines	Key objectives and vision included at the beginning of the document to establish commitment and expectations	In-scope and out-of-scope activities established	n/a – focus is on direction and guidelines rather than on monitoring	Represents the output of discussion and debate regarding objectives and key strategic priorities
Divisional operating plan	Key objectives and vision included at the beginning of the document to establish commitment and expectations	Expenditure limits set out for each core activity, so restricting search behaviour; also contains a list of analytical tools available for problem-solving activities	The expenditure limits were targets against which performance was measured	Formal meetings through which annual objectives were discussed prior to preparation of the report
Divisional goals	Statement of FinServ's/division's key values at beginning of document	Cost and operating constraints for all levels of employee	Expenditure limits restated as budget targets for performance measurement	n/a – debate not encouraged
Company annual report	Public statement of vision	n/a	Enables historic comparisons of performance	n/a
Code of conduct booklet	Statement of key operating values at beginning of document	Explicit list of proscribed behaviours and resulting disciplinary action, so providing business conduct boundaries	n/a	n/a – debate not encouraged
IT review: Internal customer briefing	Statement of vision for customer plans	Quantitative objectives set out as a 'scorecard'	Quarterly performance measured against planned projects and targets	Stated intention to include customers in changes to key processes

Appendix E. Summary table of observations for data collected in this study

Participant ^a	Present lever of control ^{b,d}	Suppressed lever of control ^{c,d}	Outcome
<i>Case 1: Outsourcing pricing process (IT division)</i>			
M1	LD ^e	BI	Higher than anticipated payments to supplier
M3	LD	BI	Increased level of business risk
M6	LD	BI	Higher than anticipated payments to supplier
M8	D	B	Higher than anticipated payments to supplier
I2 ^g	LD	BI	Higher than anticipated payments to supplier

(continued on next page)

Appendix E (continued)

Participant ^a	Present lever of control ^{b,d}	Suppressed lever of control ^{c,d}	Outcome
<i>Case 2: Goal optimisation (IT division)</i>			
M2	B	I	Investigated options
M3	LDBI	– ^f	Balanced risks and costs
M4	BD	–	Investigated impact on budget
M6	BD	I	General concern about long-term impact of cost focus
M7	BL	I	Investigated impact on budget
M8	BL	–	Investigated alternative means to achieve goals for less expense
I3	B	–	Investigated options
<i>Case 3: Goal optimisation (CS division)</i>			
M9	D	–	Recruited appropriate number of staff
	D	–	–
M10	D	–	Results better than budgeted
M11	DL	I	Made investment
M12	BD	–	Recruited appropriate number of staff
M13	D	I	Recruited appropriate number of staff
M14	BD	–	Recruited appropriate number of staff
M15	BD	–	Reduced staff as necessary
<i>Case 4: Resourcing unfunded initiatives (IT division)</i>			
M1	LBD	–	Saved money and reinvested in new projects
M2	LB	B	–
M5	LB	–	Ensured that 'best' projects were undertaken
M6	B	D	–
M7	D	–	–
I2	L	B	New projects commenced without approval
<i>Case 5: Managing operational budgets (IT division)</i>			
M1	BD	B	Overspend against budget; wasted effort
M2	BDI	B	Wasted resources
M3	BD	B	Poor results
M4	BD	D	Avoided unnecessary expense; achieved targets
M5	BD	BD	Poor utilisation; avoided unnecessary expense
M6	DBI	–	Increased utilization rates
M7	DB	–	Achieved targets and goals
M8	DB	–	Achieved targets and goals
I1	DB	B	System 'gamed'; targets re-negotiated
I2	B	–	Rework prevented
I3	DI	B	Targets not achieved
I4	DB	B	Targets achieved; disagreement over procedures
I5	DB	–	–
<i>Case 6: Managing operational budgets (CS division)</i>			
M9	D	–	–
M10	B	D	–
M11	DLB	–	–
M14	D	B	Saved expenses
M15	DB	–	Saved expenses
I6	D	D	–
I7	D	–	–
I8	–	D	–
<i>Case 7: Risk Management Expense Control (CS division)</i>			
M9	B	–	–
M10	D	B	–
M11	DB	–	–
M12	BD	B	–

Appendix E (continued)

Participant ^a	Present lever of control ^{b,d}	Suppressed lever of control ^{c,d}	Outcome
M13	BL	BN	–
M14	LB	D	–
M15	BD	–	–
M16	BLD	–	Reduced write-offs
<i>Case 8: Goal prioritization (IT division)</i>			
M1	BI	–	–
M2	DI	B	–
M3	BI	–	–
M5	D	B	–
M7	I	–	–
I2	IBD	BI	Resource allocation manipulated
<i>Case 9: Goal prioritization (CS division)</i>			
M9	D	–	–
M10	B	D	–
M12	D	B	–
M15	IBD	–	–
M16	B	–	–

^aD1–8 = directors from IT division, D9–16 = directors from CS division, I1–5 = informants from IT division, I6–8 = informants from CS division.

^bThe categorisation of a lever of control as 'present' means that there was evidence of its use by the directors.

^cThe categorisation of a lever of control as 'suppressed' means that its absence inhibited managers' activities during processes of control and decision-making.

^dLevers were not always either present or suppressed. That is, the *exclusion* of a particular lever does not necessarily indicate that it was *not* an influencing factor; rather that its effect was not evident from the data, and thus there is no analysis of it.

^eL = belief system, B = boundary system, D = diagnostic processes, I = interactive processes.

^fBlank cells indicate insufficient data to classify.

^gData collected from the informants was used to provide further evidence for the data collected from the directors. Thus many of the informants' observations included in the above table are not independent of the other observations.

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