Management control systems (MCS) for emergent strategic activity

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Abstract
Management control systems (MCS) are normally envisioned as assisting organizations to develop, implement and adapt their intended strategies. This view assumes that top level management develops then implements a single, clearly articulated strategy. Little is known about the relationship of MCS and emergent strategy i.e. strategy that reflects the day to day actions and decisions undertaken throughout the organization. Simons (2005) asserts that top management’s interactive use of control systems influences and identifies emergent strategic activities at all organizational levels without recognized that the ability of the MCS to influence emergent strategy over multiple levels may be problematic. Each managerial level reinterprets the strategy to make it relevant to the tasks and responsibilities it performs (Euske, Lebas & McNair, 1993). This allows each level to conduct strategic dialogue in its own language (de Haas & Kleingeld, 1999). Successive translations may lead to shifts in strategic direction and to vertical and horizontal decoupling. This research investigates the relationship between MCS and emergent strategy across organizational levels. It examines how MCS influence, and are influenced by, emergent strategic behaviour at different organizational levels; support the communications required to coordinate emergent strategic activity; and recognise, evaluate and formally incorporate emergent strategic activity into the organizational strategy.
Top Management: The strategy is that e-learning should be part of what the University does. E-learning is a major way to engage students in their learning.

Lower management: …e-learning may be important for distance education so students scattered around the country can discuss things over the internet.

Introduction

Management control systems (MCS) can be described as the collection of formal structures, processes, routines and procedures and the informal personal and social controls used by management and other organizational participants to help ensure that goals are achieved. (Bisbe & Otley, 2004)¹. More simply, MCS assist organizations to develop, implement and adapt their strategies and to attain their objectives. The nature and role of MCS varies between intended and emergent strategic processes.

The intended strategic process views strategy as the product of a deliberate process undertaken by senior management to formulate then implement an intended strategy. This is an appropriate approach when there is a stable competitive environment. The roles of the MCS in this process are to disseminate the intended strategy from upper to lower organizational levels by translating it into action plans, monitoring implementation of the plans, and identifying deviations that need correction. The MCS essentially supplies the tools to disseminate, monitor and enforce the strategy defined by top management. Accounting based controls, such as budgets and responsibility centres, are used to efficiently ‘cascade’ overall targets and goals down through the organization.

Control systems that perform these functions efficiently are not particularly suited to less stable environments.

The emergent strategic process is more suited to situations of strategic uncertainty. This approach provides an evolving strategic response. In this approach, strategy is “a pattern in a stream of actions” (Mintzberg & Waters, 1985) or “a pattern in a stream of goal directed activity over time” (Jarzabkowski, 2005). Strategy is continually evolving in response to influences that are dynamic, dispersed and diverse. Emergent strategy arises from the daily decisions and actions taken at all organizational levels, not from the intentional strategizing of top management (Jarzabkowski, 2005). Because the strategy reflects the decisions and actions of autonomous and empowered employees throughout the organization, its direction cannot be anticipated in advance and it may develop without top management’s active involvement or awareness. The MCS takes on new roles here to support the emergent strategic process (Davila, 2005). These roles are to encourage experimentation, to support variations in day to day responses, to structure interactions that will facilitate the exchange of knowledge and capture the learning inherent in the refinements, and to identify and nurture those initiatives from which the organization can benefit (Davila, 2000). How the MCS performs these roles in support of emergent strategy is unclear but is an increasingly important issue.

This paper first explains why it is important to understand how MCS supports emergent strategy. The next section reviews the existing emergent strategy literature to provide a basic conceptualization of this relationship and proposes an
emergent strategy process. The following section applies the process to analyze how MCS support the emergent elearning strategy in a University setting. The concluding section offers some insights developed to date from the case study.

**Importance of researching emergent strategy**

Emergent strategic processes are becoming more common. Organizations are adopting flatter structures and more employees are being granted the autonomy to apply their judgment and creativity in response to unforeseen eventualities. Increasing numbers of employees are contributing to emergent strategy by devising novel responses to situational changes. MCS are a key tool to ensure that the opportunities presented by emergent strategy can be pursued while the associated risks are minimized.

While emergent strategy enables organizations to benefit from the bright ideas of their employees, it also introduces risks. The design of the control systems becomes critical issue for the success of emergent strategy. If control systems allow too much undirected autonomy, employees may engage in undesirable activities and the activities in different parts of the organization may be uncoordinated and conflicting. If control systems constrain experimentation or fail to identify and nurture beneficial variations then organizations may forego the potential benefits. Control systems must also facilitate the learning that is fundamental to emergent strategy. They must provide ways for individuals in different parts of the organization to develop and exchange knowledge. If they do not then organizational resources may be wasted as mistakes are repeated and efforts are duplicated. As emergent strategy develops in various organizational
levels, research investigating the role of MCS in emergent strategy needs to widen its focus beyond top management and address multiple organizational levels.

**Existing MCS and emergent strategy research**

Existing research into MCS and strategy focuses on how top level managers in business organizations use control systems to influence other senior managers to implement intended strategy. Rarely do these studies trace the influence of MCS below the top management level; the contribution of lower management levels and employees to the strategy process has largely been ignored. Furthermore, few of these studies focus on emergent strategy. Consequently, a clear understanding of how MCS are used to recognize and nurture strategic activities undertaken at lower organizational levels is lacking.

Simons (2000) offers some initial insights into the relationship between MCS and intended and emergent strategy. He describes the MCS as a combination of four types of systems, namely belief, boundary, diagnostic and interactive control systems. Strategy is characterised as either intended, emergent or realized (Simons, 2000). Each of these co-exists within organizations as depicted in Figure 1.

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2 He also includes unrealized strategy which is not included in the figure shown
Figure 1: MCS & Strategy (adapted from Simons 2000)

Intended strategy is consciously planned by top management. It is shown in the upper half of the central rectangle. Intended strategy reflects the current belief and boundary systems and its implementation is influenced through the diagnostic control systems. The diagnostic controls are used to move the organization towards its intended objectives. They specify the targets, guidelines and standard operation procedures against which actual performance is compared. When deviations are identified, action is taken to get the organization ‘back on track’. In effect, diagnostic controls promote stability and stifle creativity.

Emergent strategy is depicted in the lower half of the central rectangle. Emergent strategy is the unplanned, bottom up process of local experimentation and replication that produces unexpected and unanticipated results (2000, p.34) in which strategy is created “spontaneously … as employees respond to unpredictable threats and opportunities through experimentation and trial and error” (p.302). This experimentation takes place within the constraints established by
the current strategy, and the belief and boundary systems. The key control system influencing emergent strategy is the interactive control system.

Simons (2000) asserts that belief systems, as reflected in the organization’s mission and vision statements, aim to create an organizational atmosphere that inspires employees to develop strategic responses to unanticipated conditions. These emerging strategic responses often take place without top management’s involvement or awareness (Davila, 2005) and remain mainly ‘below the radar’ (see below the line in Figure 1). Interactive controls are used to make top management aware of emerging strategic responses. They are used by top management most noticeably in times of crisis or when emergent activities overstep established boundaries. Interactive controls may also be used by lower level managers to champion an emerging strategic response.

Interactive discussions at top management level are used to gather information about strategic uncertainties. In periods of stability, management relies mainly on diagnostic controls to move the organization towards its intended objectives; emergent strategic activity is largely ignored. In times of uncertainty, management develops responses to developing threats and opportunities (Simons, 2000) through the interactive control systems. Management uses regular and recurring face-to-face discussions, such as strategy retreats or special committees, to develop these responses. Over time, this type of debate and dialogue allows organizations to adapt and renew their strategies (p.218).
Simons (2000) asserts that the debate and dialogue that occurs between upper level managers stimulates debate and the search for new approaches at all levels. The interactive control process is expected to create both top down and bottom up communication flows. The topics discussed at the top level are communicated down through the organization, to guide the search for new opportunities, stimulate experimentation and maintain control over what could otherwise be a chaotic process. Upper management is informed about the experimentation and strategic actions occurring at lower levels through a series of interlocking meetings. This interactive process draws information and learning upward, from the bottom to the top of the organization (p. 217).

This simple description of the emergent strategy process appears to be underdeveloped. When management initiates discussions about particular strategic uncertainties it is unclear how this information is communicated to other organizational levels. Similarly, it is unclear how the knowledge flows from lower across levels to top management. Simons (2000) assumes that communications across organizational levels are unproblematic and unconstrained. There is no acknowledgement that messages may be interrupted, misinterpreted or misdirected as they are translated at successive organizational levels. This research seeks to develop a more complete understanding of the emergent strategy process and the communication processes required to support it.

**An emergent strategy process**

Simons (2000) uses the Hamilton Bank as an example of emergent strategy. Hamilton Bank competed in the private banking industry servicing wealthy
individuals who owned their own businesses. The intended strategy of the Bank was broad and not very successful. The top management scheduled mid-year review meetings with key managers around the world to discuss performance to date and to determine targets for the following year. During these face-to-face meetings top management became aware some managers described profitable niches they had created. Top management were unaware of how much of their profit came from this type of business around the world. An investigation revealed that this niche provided a substantial proportion of the Bank’s profits. Top management undertook further discussion and analysis to determine whether this market niche could be the key to a successful strategy for the future. Ultimately, the Bank threw out the old strategy and adopted the new one.

Analysis of this example suggests four phases in the emergent strategy process and suggests different requirements of the MCS for each phase. These phases are

1. encouraging local experimentation
2. getting top management attention
3. evaluating wider potential
4. formalizing emergent strategic activities

The initial phase, encouraging localized experimentation, relies on the existence of structures and processes to support emergent strategic activity. When these are appropriate, experimentation can take place, and is often unnoticed by top management. In the Hamilton Bank example top management were unaware that managers were developing niche markets. During this phase, the MCS can help
to create an environment and support structures that foster experimentation and encourage creative approaches.

In the second phase, top management is made aware of beneficial strategic initiatives. In the Hamilton Bank example, the discussions about performance initiated by top management indirectly revealed the profitability of niche markets. Top management had not anticipated a change to the existing strategy. In other situations, such as in times of crisis, top management may actively promote the search for a new strategy (Simons, 2000). Alternatively, champions of strategic initiatives may bring them to the attention of top management. In each case, the role of the MCS is to provide forums and opportunities for structured interactions to take place, so that top management is made aware of new initiatives.

In the evaluation phase, initiatives that are brought to top management attention are assessed. Top management investigate the likely impact of these initiatives on the wider organization. Part of this evaluation may also identify whether existing controls hinder or facilitate the introduction of these changes. Once again, the role of the MCS is to provide forums and opportunities for face-to-face discussion to address the wider organizational implications of the emergent strategic activities.

The final phase is formalizing the selected emergent strategic activities. This will involve re-orienting the existing strategy and diagnostic control systems to reflect
the new strategic focus. The following brief case study illustrates the initial two phases of this proposed emergent strategy process\textsuperscript{3}.

Although Simons (2000) deals only with the top management level it is likely that the phases of the proposed emergent strategic process are mirrored at other organizational levels.

**Case study**
The research adopts a case study methodology to investigate how MCS influence the emergent strategic behaviour at different organizational levels. More specifically, the case study investigates the interaction between the MCS and the emerging e-learning strategy at the University of Auckland. The unit of analysis for the case study is a ‘slice’ of the University encompassing three organizational levels, namely the Top Management, Faculty and Departmental levels. The Top Management level refers collectively to the top management team (TMT) which consists of 29 members\textsuperscript{4}. It meets regularly to consider strategy, policy and other issues, such as the e-learning strategy.

Two main methods were used to collect data about the formal structures and control systems relevant to the University’s emerging e-learning strategy. A review of organizational documents was used to identify existing MCS, including the organizational policies, procedures, guidelines and roles, relevant to e-learning

\textsuperscript{3} Phases 3 and 4 are not covered in this paper because data collection is still in progress. Data about assessment of the emerging strategy have not yet been collected and the emergent strategy has not yet been formalized.

\textsuperscript{4} They are the VC, DVC (Academic), DVC (Research), Pro-VCs (4), Deans (9), Registrar & General Counsel (1), Directors (9), University Librarian (1), Chair of Budget Committee (1), and Chief Executive of UniServices (1).
activities. One outcome from this review was identification of the organizational roles with formal responsibilities relevant to elearning. These roles are reflected in the organizational and committee structures of the University.

The second data collection method used was semi-structured interviews. These were conducted with the individuals holding organizational roles directly relevant to e-learning. The interviews addressed participant’s views on the structures, processes and procedures that constitute the control system for elearning. This case analysis uses data from eight interviews. These provide data relevant to three organizational levels namely the top Management, Faculty and Departmental levels. Interviews were conducted with a Dean, Heads of Department (2), Manager of Technical Services Deputy Vice Chancellor (Academic), Director of ITS, University Librarian and Director of Centre for Academic Development).

**Initial insights on emergent strategic process**

1. **Encouraging local experimentation**

To encourage the development of strategic elearning activities, there needs to be an organizational environment that formally recognizes and legitimizes these efforts. The key components of the University’s MCS that contribute to such an environment are its organizational structure, and its belief and boundary systems.

**Organizational Structure:** The University’s structure reflects the activities that top management deems to be important. These activities are legitimated through the budgeting process. Two units provide key roles with respect to elearning. The first of these is the Centre for Academic Development (CAD) whose mandate
encompasses elearning. Within CAD, the eLearning Design and Development Group is specifically responsible for the development and use of elearning resources. ITS is the second unit relevant to emergent elearning activities. ITS is responsible for the Academic and Collaborative Technologies (ACT) group\(^5\) which develops the infrastructure to support technology based research and elearning activities and for the Lecture Theatre Management Unit (LTMU) which supports the creation of digitized lectures.

Faculties and service units also use funding allocations to signal the importance and legitimacy of elearning. For example, Faculties and service units have used funds to establish their own eLearning designers and design units; Faculty IT units use their own budgets to support particular elearning projects; and Faculties establish service units to provide additional support for elearning initiatives.

The Committee structure also signals the importance of elearning. The Teaching & Learning Technologies Committee (TLTC), a sub-Committee of the Teaching and Learning Quality committee, provides policy advice and supports innovation in the use of technology in teaching and learning. The reporting lines suggest that the use of technology in teaching will enhance teaching and learning quality, although this is not explicitly stated. Another key committee is the Information Technology Strategy and Policy Committee (ITS&P) which provides advice on IT strategy and policy, and reviews and assesses IT plans and activities. Minutes from the TLTC are sent to ITS&P so that the IT requirements relevant for elearning developments can be explicitly considered.

\(^5\) Formerly CSL (Computer Supported Learning) - the University’s learning management system
Further sources of funding for elearning developments are available outside the eformal budget allocations. Two key contestable sources of funds to support elearning initiatives are the Teaching Improvement Grants (TIGS) and the Vice Chancellor’s Strategic Development Fund.

Each of these means of providing resources to support elearning contributes to building the legitimacy of emergent elearning activities.

**Belief systems:** Belief systems explicitly define the basic values, purpose and direction of the organization (Simon, 2000). The University’s belief system is formalized in its Charter, Profile and Strategic Plan. Each of these documents specifically refers to the use of elearning as a means to achieve the University’s objectives.

The Charter states that ‘new teaching and learning technologies are transforming the educational experience of students worldwide. The UOA encourages and promotes the development of flexible modes of teaching and learning, the use of new teaching and learning technologies, and computer assisted course management systems’.

The Profile reports that the University ‘promotes and supports advances in learning and teaching technologies to improve the educational outcomes for students. The University’s faculties along with the Library, CECIL (the University’s learning management system) and the Centre for Flexible and
Distance Learning are enabling the University to respond effectively and innovatively to increased demand from students for flexible teaching and learning supported by technology and high-quality asynchronous learning materials.’

The University’s Strategic Plan (SP) articulates the University’s vision and objectives. The University will ‘create and maintain an outstanding teaching and learning environment’ by “support[ing] innovations in teaching and learning, particularly those that involve the use of new technologies, and enrich[ing] face-to-face teaching and learning by providing interactive on-line learning”.

Each of these documents clearly signals Top Management’s contributes to a belief system that signals that elearning is important and should be pursued.

**Boundary controls:** Boundary systems ensure that emergent strategic activities are constrained to acceptable domains and their associated risks fall within acceptable limits. The University appears to have only one explicit boundary limiting the types of elearning initiatives that can be undertaken. The University does not see itself as a distance education provider. Employees are therefore free to experiment with any initiative that supports face-to-face teaching and learning. There do however appear to be a number of implicit boundaries that safeguard the use of the University’s resources. The first of these is organizational slack. Most staff involved in elearning initiatives complete the projects alongside their other commitments. Effectively, the extent of their involvement is limited to the extent of the ‘slack’ in their own schedules. This limits the time academics divert from
their face to face teaching and research activities. Elearning projects are often funded from Departmental or Faculty budgets. This minimizes the financial risk to the extent of slack available in these budgets. Similarly, projects funded by TIGS grants are generally for relatively small amounts of money.

Implicit boundaries also arise with respect to expected standards of performance. The professional self image of those working in the University influences them to maintain acceptable levels of teaching and research performance as reflected in course evaluation forms, publications and Performance Based Research Fund (PBRF) ratings. Academics who are members of various peer and professional groups and will ensure that they meet the performance standards expected of members of these groups.

To summarize, there is evidence that the University’s MCS will encourage experimentation with respect to emergent elearning activities. The structure in place legitimizes creative use of learning technology and is supported by belief and boundary systems that direct attention to this area. The second stage of the proposed emergent strategy process is bringing initiatives to the attention of top management.

2 Getting top management attention

Top Management uses interactive controls to exert its influence down through the organization and to draw information up from the bottom (Simons, 2000). This implies that lower organizational levels know which strategic uncertainties are
talked about at the top management level. Interactive controls are expected to impose consistency over the search for creative alternatives and to clearly indicate to all organizational levels which strategic uncertainties to focus on (Simons, 2000).

Within the University, the key discussion forums through which Top Management is kept informed about emerging elearning activities are the Teaching and Learning Technologies and the Information Technology Strategy and Policy Committees. Information is also provided to the Top Management through the direct line reports of the Centre for Academic Development and the Library. Key topics for discussion at Top Management level include issues related to the uncertainty and lack of clarity about how best to proceed with elearning, the difficulty in setting elearning goals, and the difficulty in reconciling multiple conflicting ideas about elearning.

The importance of and regular discussion about emergent elearning strategic activities found at the Top Management and Committee levels does not appear to be reflected at lower organizational levels. Although the Committees meet regularly to discuss elearning issues, there appears to be limited information dissemination about these discussions. The membership of the Committees and their reporting lines also affect the extent to which the information is disseminated. The Committee minutes are actively circulated to selected groups within the University but are difficult to obtain outside these spheres.
The following comments illustrate the divergence of opinions about elearning between the Top Management level and lower levels. A key elearning theme emerging at the Top Management level is how to increase student engagement in the learning process. Top Management expects elearning to be part of the way that teaching is conducted in the University and views elearning as a major way to engage students and to enhance the quality of their learning. This is a view that is not necessarily shared at the Departmental level.

Top Management view: *The strategy is that e-learning should be part of what the University does; e-learning is a major way to engage students in their learning*

Departmental view: *E-learning may be important for distance education so students scattered around the country can discuss things over the internet*

A second issue of concern at Top Management level is how best to adapt to the changing realities of student life and student expectations about how and where learning will take place. The Departmental view is that there is no need to alter current patterns of staff student interaction.

Top Management view: *How do you engage students when they are not on campus as much as they used to be? E-resources let students look at things in their own time and learn*
Departmental view:  *Students need to be on campus so that if they need to follow something up they can come and see you in your office*

A third divergence of perception between Top Management and lower organizational levels relates to the (lack of) motivation to invest time and effort in e-learning initiatives. In the absence of appropriate incentives, academics are unlikely to dedicate their time and effort to the development of e-learning initiatives. Top management suggests that academics can use e-learning initiatives to enhance their publications portfolio. This is not a view shared at the Departmental level.

**Top Management view:** *Many people are now publishing on their innovative teaching practices*

**Departmental view:**  *You could publish about e-learning developments ... but researchers for PBRF will say that is not really research*

These comments suggest that top management discussions are not influencing how others within the organization perceive the importance of strategic uncertainties relevant to e-learning.

**Insights to date**

The case presented here is based on a small subset of data. It is not possible to draw any firm conclusions and the insights are likely to develop and change as more data is collected and analyzed. With this in mind, it seems that the
University has a number of control systems in place relevant to e-learning. However, the relative importance and influence of these systems appears to vary across organizational levels. The belief systems appear to be more influential at the Top Management level while the boundary systems, especially the implicit boundaries, appear most relevant at the lower levels. This proposition may not be the same for the future case studies.

It also appears that the use of interactive controls by the University’s Top Management does not appear to influence emergent strategic activity at the lower levels. This is contrary to Simons’ (2000) view that what is discussed at the top level will influence lower levels. The data so far suggests that the top and lower management levels of the organization have vastly differing views of the importance of e-learning for teaching and learning. This interpretation can only be tentative. The emergent elearning strategy is at an early stage of its development. It is expected that as expectations about eLearning are further developed, Top Management will provide clearer and more direct guidance to lower levels.

Another issue is that the effectiveness of communications between levels may vary according to the individuals involved in the chain. Other cases (Top Management, Faculty, Department ‘slices’) within the University may reveal stronger influence of top management on lower organizational levels. This disconnect between organizational levels will be explored in the ongoing research. A further issue that will be explored in the ongoing research is how the MCS develops to reflect and support developments in the emergent strategy.
References


