Management Control System and Firm performance-Resource Based View Perspective

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Abstract-The paper demonstrates how Management control system could be used by firms among developing countries to achieve better performance. Prior literature demonstrates how firms in developing countries are surrounded by resources but could not use them to their advantage. The idea that MCS in collaboration with tangible and intangible resources could boost a firm capability as it would make the resources imitable as such gives firm sustained capability. The paper is conceptual in nature as such requires empirical examination in order to determine the extent to which MCS in collaboration with resources at the disposal of firms could trigger better performance in developing countries. The relationship would be examined in light of resource-based view theory which found to be adequate enough to explain the relationship. The paper presupposes that Good MCS practice implementation among developing firms in collaboration with abandon resources at the disposal of companies would serve as a capability that could boost firms’ performance. The framework if empirically tested would add to the existing literature that focused mainly on contingency and agency theory in addressing firm performance thereby, neglecting the impact of firms’ potentials in achieving better performance. The adoption of good elements of management controls would enhance firms’ ability in assessing both their internal and external environment in order to tap from the abandon resources which could be used to achieve better performance.

Keywords: management control system, MCS Package, resource based view, firm performance,

Introduction

Firm Performance had become very crucial to all business ventures, looking at the dynamic of businesses institutional factors and environment that surrounds firms. Organizations require assessing their external and internal environment for opportunities and challenges in order to remain competitive to achieve sustainable growth (Sawyerr, 1991). Continuous improvement in firms’ performance has become vital for the attainment of competitive advantage over its peers. This challenge enlarged the sphere of firm performance to include financial, customer, internal business processes, innovation and learning perspectives (Kaplan, 1984, 2009). The importance of firm performance in a country cannot be overemphasized as it has become an engine of economic growth and development. Though, developing countries firms were faced with performance challenges due to some identified factors hindering their prospect such as economic instability, technology, and globalization, thus making it difficult for them to survive competition with their foreign counterparts despite the abandon resources at their disposal.

In Nigeria manufacturing companies’ contribution to economic output reached its peak of 7.83% in 1982. Several factors contributed to the fluctuation in the sector’s share through time. Thereafter, increased revenues from oil made the manufacturing sector’s contribution to Gross Domestic Product (GDP) to decline. The lack of affordability of imported goods, combined with the absence of foreign capital and technology, encouraged domestic production of basic commodities such as soap and salt (NBS, 2012). The formal manufacturing sector in the country was dominated by output from the food beverages and tobacco activity, contributing about 72.02% of the output in the year 2010. Despite the activity’s growth of N488,855.06 million or 9.91% in 2011 and N712,759.35 million or 13.15% in 2012, this total output share declined to 66.32% and 62.42% in 2011 and 2012 respectively (NBS, 2013). The performance of firms is crucial to the development of any nation. This because economic growth is believe to be a positive change in the level of production of goods and services coupled with improved national income of a country over a given period of time (Oluitan, 2006). Therefore, several studies portray performance from differing point of view depending on the researcher viewpoint. As
performance was said to have direct relationship with profitability is ultimately determined by the effectiveness of management and workforce (Rodney, 2016).

The extensive discourse on performance enlarged the sphere of performance which redirected firms focus on general effectiveness, efficiency, quality, profitability, productivity, good work life, innovation and learning (Sampe, 2012). Performance in this context is crucial to all business ventures (Chi, 2015). Thus, firms need to assess their external and internal environment for opportunities and challenges to have a sustained performance (Henri, 2006; Sawyerr, 1991). This brings about the need for a better management control system (MCS) among firms which improves firms’ competitiveness. MCS encompasses the entire strategic processes involving formulation and implementation which are achievable through analysis, planning, measurement, control and rewarding (Ferreira & Otley, 2009). The development of MCS in the field of management had improved the scope of firms and requires organization to remain agile and competitive to tackle both their internal and external environment challenges. For instance, firms in developing countries had for a considerable time suffered from enormous stress caused by a complex mixture of external and internal factors (Munene, 1995) despite the resources available in their domain. Thus, in a nutshell, firms need to have resources both tangible or intangible which are imitable in order to possess the capability that could, in turn, give them competitive advantage over other companies. The argument could be buttress with pervasive export of resources such as wood and cotton to China from Nigeria, while the country remains a great importer of furniture and textile from same country. This could be attributed to the failed textiles industries. Azeez, Muhammad and Okoh, (2013) posit that Nigeria at a time had more than 140 textile firms which subsequently, reduced to 45 out of which only 20 are functioning below their installed capacity. This necessitates the need to improve firms’ MCS in developing countries in order to take advantage of the imitable resources in their domain. This awareness led organisational participants in stronger firms further develop management control systems that are tighter than the external control originally imposed by regulators such as central banks, security commissions, stock exchange (Agyemang & Broadbent, 2015).

Meanwhile, management control from the viewpoint of Anthony (1965) is regarded as “the process by which managers ensure that resources are obtained and used effectively and efficiently in the accomplishment of the organization’s objectives.” Therefore, resource-based view theory (RBV) could explains MCS as complementary resources (Barney & Clark, 2007) which is used to influence employee (Nura, 2014) to implement firm’s strategy (Henri, 2006). Managers in developing countries start being interested in the management accounting practices, organisational control and in performance measurement (Jingga & Dumitrul, 2014). This is because management control system helps a firm to achieve its strategic goal, as it takes cognisance of all the important aspect of controls and ensures that they are deployed in a balanced manner ((Strauss, Pasca, & Weber, 2013). For instance, the administrative control takes care of governance, structure and policy and procedures in a firms. While on the other hand planning control gives detail guide on the firms strategic and operational planning (Malmi & Brown, 2008), it ensures resources are effectively and efficiently utilized in a firm. These sub-controls guide organization in achieving its goal by ensuring organization is directed in the best interest of the stakeholder thus, avoiding conflict of interest.

**Literature**

**Management Control System**

MCS as a field of studies had experienced several improvements emanating from differing researchers viewpoint (Abernethy & Brownell, 1997; Chenhall, 2003, 2005; Malmi & Brown, 2008). Initially, MCS studies literature gave emphasis to financial performance and internal process. MCS was at a point describe as information feedback systems, where goals are pre-set, outcomes are compared with the set target, and variances are analysed by management for follow-up actions (Green & Welsh, 1988; Hopwood, 1987). This viewpoint was more of a diagnostic element of controls (Simons, 1991) as such, considered to be deficient for not including interactive elements of control thus, bringing MCS within the confine of Management by exception. Subsequently, MCS research was broadened to include Management accounting system, personal and clan controls aim at achieving organisation strategic objective (Anthony & Govindarajan, 2007). So also, the classic view linked MCS to strategic planning, management control, and operational control (Ferreira & Otley, 2009). The transformation of MCS goes with changes in its definition, which became more refined with the influence of business environment, stakeholder and businesses objectives.

The continuous development led to the broad classification of MCS into three fields of study, which includes management accounting, managerial economics and social psychology (Anthony & Govindarajan, 2007). Fist MCS requires contributions from management accounting for measurement purpose. Second, it involves
resource allocation decisions and is therefore related to and requires a contribution from economics especially managerial economics. Third, it involves communication and motivation thus, drawing contributions from social psychology especially organisational behaviour. Therefore, the literature of MCS can be broken into four (4) sections, which are nature of control, an element of control, the process of control and finally the need for control.

MCS has become an important aspect of management due to the drastic change in the contextual business environment firms operate in thus; firms have to continuously renew their MCS to suit the changing situation (Danneels, 2002). This necessitates the design and implementation of good MCS to improve the competitiveness of an organisation. The conflicting objectives of organisational actors and firms itself also bring about the need for MCS. Abernethy and Chua (1996) argue that if all employees would do what is expected of them, then there would be no need for MCS. Business environment nowadays is characterised by frequent changes in customers, technologies and competition (Danneels, 2002). Therefore, knowing the possible reactions of firms to fluctuating environments is for management to respond properly as overreactions can cause an adverse consequence to a firm (Asel, 2009). On this basis, a proper information based system with effective feedback design for timely action is needed to give a firm competitive advantage over its competitors.

MCS is said to perform several roles in a firm which tend to be more robust than the mere organisational control. Davila, Foster, and Li (2009) set out five roles that MCS is expected to deliver on, in a firm. The main function of control is to increase goal congruence or prevent organisational participants from behaving in ways where goal incongruence exists (Herath, 2007). Thus, Control has been linked to strategy and this form the basis of MCS as an achievement of strategy is the ultimate goal of an organisation. The link between the two was stress by Anthony (1988) by defining management control as “the process by which managers influence other members of the organization to implement the organization’s strategies”

Resource-Based View
A more robust theory is needed to suit the dynamics of business as it is evident that MCS developed 60 years ago for the mass production which is labour intensive may not be appropriate for the planning and control decisions of contemporary firms (Kaplan, 1984). Therefore, Malmi & Granlund (2009) provide suggestions on how management accounting research could proceed to produce better theories in this direction which are more like practice relevant and also unique to the field. Tobera and Curtis, (2013) posit that despite the consolidation of management accounting as a primordial system of information within organisations, a gap has been identified between ‘theory and practice.’ This gap was said to have been created by the efforts of researchers to compare accounting with some ideal approaches developed by normative theories based upon neoclassical economic analysis (Macintosh & Scapens, 1990). Thus, accounting theories such as RBV could serve as a remedy to management accounting problem.

Barney and Clark (2007) posit that organization needs to own resources that are valuable, rare, inimitable and expensive to imitate for it to achieve competitive advantage. Thereafter, several studies followed, attempting to demonstrate how resources at the disposal of firm could be turn to capabilities which could lead to better firm performance (Barney & Clark, 2007; Fosfuri, Andrea, Gómez-mejía, & R, 2007). As the name implies resource-based view theory looks at the organization’s resources as the key to superior organizational performance (Barney & Clark, 2007; Obinozie, 2016). Resources in this regard includes all assets that a firm can draw upon when designing and implementing strategy (Grant, 1991).

Resource-based view theory literature revealed that resource should have the potential to contribute to firm’s performance (Nothnagel, 2014). Therefore, the resources should be attractive, valuable, scarce, rare, unique, immobile, non-tradable, non-transferable, imperfectly imitable, imperfectly replicable, imperfectly transparent, and non-substitutable (Barney & Clark, 2007; Grant, 1991; Nothnagel, 2014; Nura, 2014). The resources can be in form of either tangible or intangible assets which firm uses for its day to day activities. The different between the two is that tangible resources have physical features and are visible they include capital, land, buildings, plants, supplies and equipment. On the other hand, intangible resources have no physical features as such they are invisible. They include firm’s culture, attributes and information capabilities, strategies, processes, knowledge, brand equity, reputation, and intellectual property (Barney, 1986, 1991, 2007). While for most developing countries especially those in Africa are blessed with both the tangible and intangible resources.

MCS and Resources Based View Theory
Barney (1991) links resource-based view to strategic management. While Henri (2006b) in his article “management control systems and strategy: A resource-based perspective” attributes MCS to strategy and resource-based view theory. Meanwhile, MCS packages contains planning control, administrative control cultural control cybernetic control and reward and compensation control (Kürşchner, 2013; Malmi & Brown, 2008) all of which have direct relationship to strategy implementation. Resource-based theory has become a leading theoretical concept in the field of strategy as it explains how firms achieve better performance. Over years firms that plan to be competitive continue to use their MCS to obtain and develop valuable resources which they use to implement strategies in ways others cannot expect, to gain sustained economic rents (Barney & Clark, 2007; Govindarajan Fisher, J., 1990; Henri, 2006). Though, in line with RBV proposition not all the resources of firm are strategic resources. As Competitive advantage happens only in a situation where the resources are heterogeneous and immobile. As resources at the disposal of developing countries firms could be made to acquire such features if good MCS is practice is adopted. Meanwhile, these resources are more assessable by firms in developing countries especially African countries where mineral resources like cotton, tin, zinc, iron ore, crude oil lime stone, hide and skin, coal and timber are available. Despite these resources, the firms in these countries rely on foreign countries to supply them with processed raw material which serve as input to their factories. The raw materials were originally exported from the developing countries and refined abroad before imported back to the developing countries at a much higher cost, thus, increasing the cost of production. On this note, firms need a good MCS to convert these abandon mineral resources into capability that could result in competitive advantage.

Theoretical Framework
Barney (1991) links resource-based view to strategic management. While (Henri, 2006) in his article “management control systems and strategy: A resource-based perspective” attributes MCS to strategy and resource-based view theory. Meanwhile, MCS packages contains planning control, administrative control cultural control cybernetic control and reward and compensation control (Kürşchner, 2013; Malmi & Brown, 2008) all of which have direct relationship to strategy implementation. Resource-based theory has become a leading theoretical concept in the field of strategy as it explains how firms achieve better performance. Over years firms that plan to be competitive continue to use their MCS to obtain and develop valuable resources which they use to implement strategies in ways others cannot expect to gain sustained economic rents (Barney & Clark, 2007; Govindarajan Fisher, J., 1990; Henri, 2006).

Since then, strategy experts adopt RBV as a leading theoretical concept in the arena of strategic management as it attempts to explain how firm’s achieve competitive advantages which results in better performance (Barney & Clark, 2007; Grant, 1991; Henri, 2006). The bulk of empirical resource-based work in the field of strategic management has concentrated on identifying resources that have the attributes that resource-based theory predicts will be important for firm performance and then investigating whether the predicted performance effects exist (Barney & Clark, 2007). The performance effects of different types of firm resources have been examined, which includes firm’s history, employee know-how, integrative capability, innovativeness, organizational learning, entrepreneurship, culture and network position (Albertini & Muzzi, 2016; Efferin & Hopper, 2007; Henri, 2006; Suprapto, Wahab, & Wibowo, 2009). Many of these performance effect falls under the dimension of Malmi and Brown (2008) MCS package, which contain five elements of control ranging from planning controls, administrative control, cybernetic controls, cultural control and rewards and compensation.

However, another perspective on the question of management control is that organization includes all those dimensions of implementing a firm’s strategies that are, inimitable in principle, but are nevertheless important if a firm is to gain competitive advantages from it (Barney & Clark, 2007). Barney (2002) calls these dimensions of strategy implementation ‘complementary resources’, which includes firm’s structure, management controls, and compensation plans and are found to be important in the attainment of competitive advantage. Management control system is referred to as complete set of rules, practice, values and other activities that management put in place to direct employee toward its organizational goal (Chenhall, 2003; Henri, 2006; Malmi & Brown, 2008; Simons, 1995). Therefore, if MCS is implemented in such a manner that it develops human resources that other firms find it difficult to imitate it could be a source of sustained economic benefit, as it would result in effective and efficient utilization of resources. The assertion above could be buttress by Henri (2006b) proposition that MCS fosters four capabilities (market orientation, entrepreneurship, organizational learning and innovativeness) by focusing firm’s attention on strategic priorities which leads to firm performance. This is because, towards the end of the 20th century, management has learn to accept that people are ahead of any other resource in a firm as significant as all other resource (Nura, 2014). It could as well be deduced from the RBV that management practices can contribute to sustained competitive advantage by facilitating the development of opportunities that
are unique to an organization as in the case of performance measurement system. The sustained superior performance that many firms have is as a result of their unique ability to effectively influence their employee which could be achieved through MCS package (Malmi & Brown 2008; Calskan, 2010). As the dimension of MCS package risk, culture and firm’s performance variables includes; capabilities like market orientation, entrepreneurship, organizational learning and innovativeness.

The relevance of the RBV to MCS package is buttressed by Malmi and Brown (2008) assertion that MCS as a package could facilitate the development of relevant theory on how to design a range of controls to support firm’s objectives, control activities, which drive performance. MCS package which contains five element of controls which are the independent variable in the model could be explain in the light of RBV theory as is the most comprehensive package ever developed in MCS literature; (i) Planning control could be explain in the context of strategic planning (Dent-Micallef & Powell 1998) thus, in this study is also measured on the basis of firm’s strategic planning which focuses on building strong competitive advantages. (ii) Administrative control in this context had a dimension of management innovativeness which is a core values that provides guidelines on employees, customers, suppliers, and others relationship that foster innovativeness and flexibility in firms thus, could lead to sustained competitive advantage (Barney & Clark, 2007). (iii) Cybernetic control could be explain in the context of both diagnostic and integrative control (Henri 2006b) having influence on firms strategic choice thus giving firm a degree of competitive advantage, it measures firms ability to identify critical performance variables that show progress towards strategic objectives. (iv) Cultural control, on the other hand, strengthens organizational learning which is a capability in Henri’s model and was investigated by Hult and Ketchen (2001) as open culture developed from the perspective of systems build to nurture knowledge management in a firms (Barney & Clark, 2007). Reward and compensation control which is an element of human resources practice was found to have significant relationship with firm performance (Barney & Clark, 2007). Organizations adopt different strategies of rewarding their employees for better performances and positive accomplishments. Therefore, MCS package adoption could lead to open culture, employee commitment, innovativeness, organizational learning and empowerment which are all source of competitive advantage (Barney & Clark, 2007; Deshpandé & Farley, 2004; Henri, 2006; Kürschner, 2013).

The resources in question are both tangible and intangible which are to be attractive, valuable, scarce, rare, unique, immobile, non-tradable, non-transferable, imperfectly imitable, imperfectly replicable, imperfectly transparent, and non-substitutable (Barney & Clark, 2007; Grant, 1991; Nothnagel, 2014; Nura, 2014). As for the tangible resources mentioned, they are accessible by developing countries’ firms at a more affordable cost as such could easily be transform into capability which could, in turn, become imitable thus, making firms to have comparative advantage over their foreign counterparts. This could be possible with the implementation of good MCS practice. Conversely, attributes such as culture, information capabilities, strategies, processes and knowledge are considered as intangible resources and they all fall under planning control, cybernetic control and cultural control elements of MCS package as illustrated by Malmi and Brown (2008). Therefore, when these intangible resources become established in collaboration with the mineral resources (tangible resources) at the disposal of firms it would lead to possession of information capabilities, brand equity, reputation, and intellectual property as posits by Barney (1986, 1991, 2007). This is because over years firms that plan to be competitive continue to use their MCS to obtain and develop valuable resources which they use to implement strategies in ways others cannot expect, to gain sustained economic rents (Barney & Clark, 2007; Govindarajan Fisher, J., 1990; Henri, 2006). In a nutshell, good management control system in collaboration with tangible resources could buttress firms’ performance. This serves as capabilities which ultimately give firms an edge (competitive advantage) over its foreign counterparts as its yield economic value to the firms over times.

![Figure 1. Relationship between management control system and firm’s performance.](image-url)
In light of the above, the adoption of this framework which depicts the direct relationship between MCS and firm performance would be helpful in addressing developing countries lingering firms’ poor performance. This framework is a double edge sword as it can be analysed both qualitatively and quantitatively. Though prior studies had made attempt in exploring the relationship both from qualitative technique and quantitative technique perspective (Berglund & Rapp, 2010; Ekblom & Stengård, 2014; Hared & Abdullah, 2013; Oshode, Alade, & Arogundade, 2014) but the theories adopted were either contingency, institutional (Volberda, van der Weerd, Verwaal, Stienstra, & Verdu, 2012) and agency theory (Namazi, 2013). Thus, employing the use of resources based view theory to test the relationship would be a value adding finding in the field of management control system.

Conclusion

Conclusively, the reviewed literature shows that a firm with effective MCS in developing countries with abandon resources both tangible and intangible could have a sustained competitive advantage. This is because the goods MCS in collaboration with resources could give firm an edge by boosting it capability that would over time become imitable as such result in better performance. Thus, from MCS perspective planning control can help in preserving resource through effective utilization and would as well lead to the achievement of firm short-term and strategic initiative. Administrative control which lay down the foundation for proper strategy implementation via governance, structure and policy and procedures would boost firms’ capability. Cybernetic control would ensure the detection of any deviation from the planned course of action and actual action with a view of resolving the deviation. The cultural control would instil a viable behavioural values that would guard against conflict of interest. All these controls would be strengthened by the firms’ rewarding system which boosts staff morale. Hence, implementation of good MCS by firms would result in growth among firms in developing countries which survival is being threatened by the influx of foreign goods. As they possess all the needed tangible resources such as cotton, iron ore, rubber, timber, foodstuff, tin, zinc, coal, crude oil, lead and other precious resources as well as the needed intellectual capital. Though, the paper is conceptual in nature but would contribute immensely in the field of management control as several studies conducted failed to focus on the pervasive problem of firms’ performance among developing countries despite its enaormous setback. These companies sit on precious resource with people having diverse technical know-how around them but could not turn these resources to their advantage. This demonstrate weakness in firms’ MCS and pervasive disregard to the impact of resource based view theory in reversing the situation on ground.

Reference


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