

# Managers and management control systems in the strategy process

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## 1 The role of top and middle managers: an editorial

Organizations have become more structurally differentiated, adopting the rationale that semi-autonomous units and their local managers may better serve the diverging demands of an increasing set of stakeholders (Berry 1994; Otley et al. 1995). Management control systems (MCS) are often assumed to influence the behaviour of employees in such ways that the organization can achieve its goals (Merchant and Van der Stede 2006). While historically rooted in management accounting (Otley et al. 1995), MCS literature has matured substantially in recent years with increased attention on informal control systems and non-financial outcomes (Auzair and Langfield-Smith 2005; Berry et al. 2009; Arjaliès and Mundy 2013; Strauß and Zecher 2013). This has broadened the field and current studies incorporate extended insights from a variety of disciplines such as strategic management (Simons 1994; Langfield-Smith 1997), highlighting the crucial, yet underemphasized, role of MCS in the strategy process.

With this special issue we aim to compile state-of-the-art ideas on the role of MCS as an integrative mechanism between top and middle managers in the strategy process. It advocates the importance of MCS to extend beyond the range of top management and emphasizes the use of both formal and informal control mechanisms at the interface between top management and the middle management level (Balogun 2006; Balogun and Johnson 2005). Traditional studies on MCS in the strategy process mainly focus

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on top managers alone (Simons 2013), omitting the key role of middle managers as linking pins between top management and the operational level of the organization (Floyd and Lane 2000; Kownatzki et al. 2013; Ling et al. 2005; Taylor and Helfat 2009). Considering the growing attention for a wider conceptualization of MCS (Strauß and Zecher 2013), it is surprising to see that only few studies have focused on middle managers (Naranjo-Gil 2009). In particular, how middle managers embrace and use MCS to form or implement strategy remained largely unexplored.

Middle managers assess, justify, and define new strategic trajectories, both up and down stream, in dialogue with higher management and employees (Dutta and Crossan 2005). This allows them to actively exercise control (Simons 2013) through, for instance, resource allocation practices (Nielsen et al. 2012), selective decision participation (Van Doorn et al. 2015), direction and comprehensiveness of knowledge flows (Mom et al. 2007), cautious proactivity (Glaser et al. 2015), or informal communication (Pitkänen and Lukka 2011). Middle managers are also more sensitive in terms of registering relevant changes and, through their detailed case-specific knowledge, better equipped to devise suitable strategic responses (Glaser et al. 2015).

However, actions by middle managers need to be aligned with top management to ascertain cross-echelon behavioural consistency (Dutton and Ashford 1993; Dutton et al. 1997; Heyden et al. 2015; Mantere 2008), calling for an interfacing consideration of top managers and middle managers to understand how MCS matter in the strategy processes (Raes et al. 2007). To shed more light on management control issues at the “top management-middle management interface”, this special issue features several interesting studies that highlight how managers across hierarchical levels influence, and are influenced by, MCS in the strategy process. Collectively, the previous insights on the changing scope of literature on MCS and its related phenomena underlines the timeliness of this special issue in framing the importance of middle managers in the current corporate landscape. It elaborates on the different types of MCS they may apply in managing their local operations as well as establishing and maintaining an effective liaison with both top management and lower level employees. This special issue aims to offer a state-of-the-art representation of MCS literature that focuses on the “top management-middle management interface” and offers a forum for future discussions and research in this area.

It also features an in-depth panel discussion with key contributors to the field of MCS, strategy process, and the top management-middle management interface. Respectively, our distinguished colleagues professors *David Marginson*, *Anneloes Raes*, and *Wim Van der Stede* reflected on key opportunities and challenges for taking research at the intersection of MCS, strategy process, and the particular interplay between top managers and middle managers. The panel discussion puts into perspective the different pathways in which MCS literature is developing and raises some intriguing questions and future avenues for research. In particular, our three panellists discuss the breadth of the MCS field, how it has expanded, and how the interplay between formal and informal MCS may help in framing the role of middle managers in the process of strategic alignment. Specific attention is allocated to the “top management-middle management interface” as it is crucial in understanding how middle managers translate the generally formal directives received from top management

into workable solutions that account for specific idiosyncrasies at the department and unit level.

## 2 Papers in this special issue

This special issue consists of five manuscripts.

In the first paper of this special issue, *Berend van der Kolk* and *Tom Schokker* advance a more integrated perspective of MCS, both in terms of the breadth of management control mechanisms and in terms of actors involved in management control at different hierarchical levels of organizations. They draw from coupling theory and follow the rationale initially put forward by [Marginson \(2002\)](#) that MCS should be considered as a system of interrelated mechanisms that together aid to inform and implement strategy. Their qualitative study is instrumental in signalling how management control elements at different hierarchical levels of a public sector organization are coupled to implement strategy. In particular, it describes in-depth how top managers, middle managers, and employees co-create MCS and how MCS in turn shape the strategic future of the organization.

The study of *Martin Guggenberger* and *Anna Rohlfing-Bastian* investigates middle management involvement in the strategy formation process as a determinant of middle manager support for selected strategic pathways. It contrasts centralized and delegated decision-making practices from a moral hazard perspective and discusses conditions under which delegation is preferred over centralized decision-making. For instance, the authors argue that implementation costs are lower when middle managers have been consulted in the strategy formation process. Extending autonomy to middle managers, however, offers better results for projects that have higher probabilities of success and that do not involve organization-wide strategy. In addition, they propose that informational benefits are contingent on the distribution of authority across the organization. This paper has several important contributions to the field of MCS as it taps into the trade-off between top management and middle management authority and describes some of the contingencies that need to be considered when delegating responsibilities to lower hierarchical levels of the organization.

The third study of *Carlos Martin-Rios* included in this special issue focuses on middle manager perceptions and receptiveness to changes in MCS. Adopting a case-study methodology, it provides rich insights into the sense-making processes middle managers apply when confronted with changes to MCS. In particular, it shows that middle managers use metaphors to give meaning to new MCS and these metaphors are instrumental in coming to terms with new control systems. It is clear that not all middle managers respond similarly, and sense-making processes at the middle management level determine to a large extent the effectiveness of MCS. This signals that the “top management-middle management interface” is essential in conveying the reasons behind changes to MCS, providing additional explanations when needed, and offering a platform to middle managers to provide feedback to top management on the implementation of new MCS and flag potential problems.

*Thomas Schaefer* and *Thomas Guenther* take a broad perspective and investigate a number of critical questions with regard to the involvement of top and middle man-

agers. The authors apply a structural equation model that aims to explain how and why organizational outcomes such as strategy implementation success, strategic planning effectiveness, and financial performance benefit from strategic alignment of middle and lower level management. It further underlines the importance of middle manager involvement in strategic planning. The results suggest that top and middle management participation in the strategy process tend to be equally important for improving organizational outcomes.

The final study in this special issue of *Stefan Linder* investigates antecedents of autonomous strategic actions of middle managers and lower level employees. It takes a traditional approach to MCS and considers the interaction of monetary and promotion policies with individual motivation to engage in autonomous strategic actions. In this way, it merges principal-agent theory with self-determination theory and provides a cautionary note on the introduction of merit-based systems when individual motivation for autonomous behaviour is high. This approach adheres to the foundation of MCS rationale in that control cannot be exercised freely even if it does recognize contributions of focal employees. The exercise of control may erode intrinsic considerations that are part of employee identities. Much like the paradox of power, where leaders cannot openly refer to their formal power base, overt extrinsic compensation schemes that emphasize individual accomplishment may undermine intrinsic motivation.

### 3 Future research directions

A central theme in this special issue is decision-making inclusiveness at the middle management level which is associated with enhanced motivation for strategy implementation (Ketokivi and Castañer 2004). It further increases strategic effectiveness through attention for local contingencies and reduces organizational costs. The manuscripts included in this special issue discuss the “top management-middle management interface” and several interesting contributions emerge. For instance, it becomes clear that mandates can be shared through MCS that connect different managerial levels of the organization. This decentralized approach offers clear benefits and shows that MCS inform the process of both local and organizational strategy formation, implementation, and evaluation. The research presented in this special issue also highlights that the managerial interplay across hierarchical levels not only affects one particular management control element but rather packages or systems of MCS. From a methodological perspective, the studies highlight how a variety of methods, data sources, and theories can enhance our understanding of MCS in the strategy process.

In proposing avenues for future research, we would like to emphasize the value of the current focus presented in this special issue. The interface between top management and middle management and the application of MCS in this context harbours more opportunities for elaborated studies on this important subject (e.g., the papers of Guggenberger and Rohlfing-Bastian and Martin-Rios in this issue). Future research could investigate how MCS practised at the interface influence organizational outcomes. Studies could also try to establish a more unifying set of organizational outcomes that are relevant to the field of MCS (see the paper of Schaefer and Guenther).

Another interesting avenue that would help to build additional understanding on the functioning of MCS is to delve deeper in the formulation, implementation, evaluation, and adjustment cycle for MCS, where initial systems may be subjected to temporal adjustments based on discrepancies between MCS goals and organizational outcomes. This feedback loop could be studied in terms of objective indicators and associated changes as well as the subjective underlying processes that allow or prevent MCS to deliver on anticipated benefits. Insights on objective outcomes will advance the field in terms of informing how MCS shape interactions between top management and middle management and building a framework of best practices around MCS at the “top management-middle management interface” (Raes et al. 2007, 2011). Understanding the subjective mechanisms that enable MCS effectiveness is equally important, especially in the current MCS landscape where formal systems are often aimed to be complemented by informal ones (e.g., the paper of *Linder* in this issue).

An additional potentially fruitful direction of the field would be to study autonomous and local formulation and implementation of MCS at the middle management level (e.g., *Van der Kolk* and *Schokker*). Whereas studies in this special issue are informative on how the interface between top management and middle management matters for enhancing effectiveness of MCS, it would be interesting to investigate more autonomous approaches to MCS at the middle management level such as within semi-autonomous units, subsidiaries, or functional departments. Inquiry in this area would shed more light on how large organizations may build more effective MCS without continuous involvement of top management. This is highly topical as modern-day large organizations do not benefit as much from traditional rationales to economies of scale, especially when it comes to service organizations. In fact, a substantial literature exists describing the challenges of organizational size, which include reduced innovativeness, decreased speed of decision making, and increased coordination costs (*Gooding and Wagner 1985; Chen and Hambrick 1995; Vaccaro et al. 2012*). Autonomous approaches to MCS at the middle management level have the potential to circumvent some of the aforementioned drawbacks by facilitating hierarchically aligned responses that are more timely, effective, and adjusted to local requirements (*Van Doorn et al. 2015*). The latter, however, only works with a functioning “top management-middle management interface” that prevents the organization from becoming too fragmented and that allows top managers to remain informed of relevant organizational developments.

A last research opportunity we want to highlight here follows some of the findings of *Linder* in that it will be important to get a better bearing on the interactive impact of formal and informal MCS, especially as initial findings show that they may offer counter-effective benefits. More empirical evidence is needed to conclusively determine how formal MCS erode informal MCS effectiveness and vice versa and whether specific combinations may in fact prove to be complementary. In order to better understand how this process unfolds, future research could focus on both quantitative and qualitative approaches to arrive at a more comprehensive set of beneficial formal and informal MCS interactions. Whereas the quantitative approach will be helpful in testing objective outcomes of interactive MCS leading to a more encompassing portfolio of MCS combinations in a variety of contexts, the qualitative approach will shed more light on the antecedents of interactive MCS effectiveness.

At this point, we would like to thank the authors who contributed insightful papers to this special issue, the reviewers who gave helpful guidance to the authors in developing their papers further, and the managing editor for his invaluable advice in this publication project. We particularly thank the participants of our expert panel: *David Marginson, Anneloes Raes, and Wim Van der Stede*. We trust that their thought-provoking ideas will serve as an additional launching pad for several interesting avenues for future inquiry.

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