Issues in Social and Environmental Accounting
Vol. 3, No. 2 Dec 2009/Jan 2010
Pp 117-142

The Performance Implications of Fit among Environment, Strategy, Structure, Control System and Social Performance

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Abstract

The paper examined concept of corporate performance. The paper seeks to examine the impact of corporate social performance on the relationship among business environment, strategy, organization, and control system and corporate performance. The paper is based on a synthesis of the existing literatures in strategic management and accounting filed. The paper finds that corporate social performance defined as stakeholder relationship become one important dimension of the strategic behaviors that an organization can set to improve corporate performance. The contextual variables as discussed in strategic management and accounting domain will be contingent upon strategic behaviors, which are behaviors of members in an organization. The paper integrates the contextual variables including business environment, strategy, organization structure, and control system with corporate performance by using corporate social performance as moderating variable by means of a recent literatures study from strategic management and accounting field.

Keywords *Contextual Variable, Strategic behavior, Strategy, Business Environment, corporate social performance, corporate performance*

Introduction

The outcome of management process, from strategic planning to implementation of the plan will lead to measuring performance (Daft, 1991). Thus, term corporate performance refers to the end result of management process indicated by the attainment of corporate goal. Specifically, Daft (1991) defined performance as the organization's ability to

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attain its goal by using resource in an efficient and effective manner. In strategic management literatures, the measurement of corporate performance can be varied perspectives (Lenz, 1980 and Ventrakaman and Ramanujam, 1986). For example, Ventrakaman and Ramanujam (1986) classified business performance into categories of measures: operational performance and financial performance. The operational performance include: market share, product quality, and marketing effectiveness. Furthermore, based on its sources, financial performance is broken down into two categories: market-based financial performance and accounting-based financial performance. However, in accounting literatures, concept of corporate performance always refers to financial aspects such as profit, ROA and EVA, with the nick name of the bottom line, until Johnson and Kaplan (1987) coined idea of how to bring a company's strategy and used indicators together and later on, Kaplan and Norton (1996) popularized the idea as an extended performance measurement often called balanced scorecard. The main idea of the new performance measurement is to balance the domination of financial aspect in corporate performance and non financial aspect. It is apparent that the Kaplan and Norton's extended corporate performance has been in line with Ventakraman and Ramanujam (1986)'s business performance.

Simons (2000) defined corporate performance using an approach of market mechanism by which a corporation actively interacts with some markets: financial, factor, and costumer. In Financial market, the corporate performance should satisfy stockholders and creditors in form of financial indicators. For parties in factor market such as suppliers or the other production factor owners, the corporate ability to pay in time and in agreed amount of the factor production they rendered to will be important performance. Finally, from the perspective of customer market, corporate performance will be evaluated by parties in the market based on the ability of the corporation to deliver products or services to customers with affordable price which is the net effect, in turn, will be indicated in the corporate's revenue. Overall, the Simons's (2000) view of corporate performance parallels the Input-Output view of a corporation suggesting that the existence of a corporation is due to mere contributions by stockholders/investors, suppliers, labors, customers with the hope of return for each party through market mechanism (Donaldson et al., 1995). One difference between Simons (2000) and Donaldson et al (1995) is that in Simons's work supplier and labor are the same market (factor market),while in Donaldson et al (1995)'s work, the two parties are separated to picture the flow of input and output.

In some decades ago, topics in corporate performance have been important area of research in strategic management and accounting literatures. The research area started examining the construct of performance (both in corporation and managerial perspective) and relating to other constructs such as strategy (Govindarajan and Gupta, 1985; Govindarajanand and Fisher, 1990; Govindarajan, 1988; Liao, 2005; Sandiono, 2005), business environment (Woodward in Azumi and Hage, 1972; Gul, 1992; Chenhal, 1986), control system (Govindarajan and Fisher, 1990; Govindarajan, 1988; Liao, 2005; Sandino, 2005; Albernethy and Brownell, 1999;

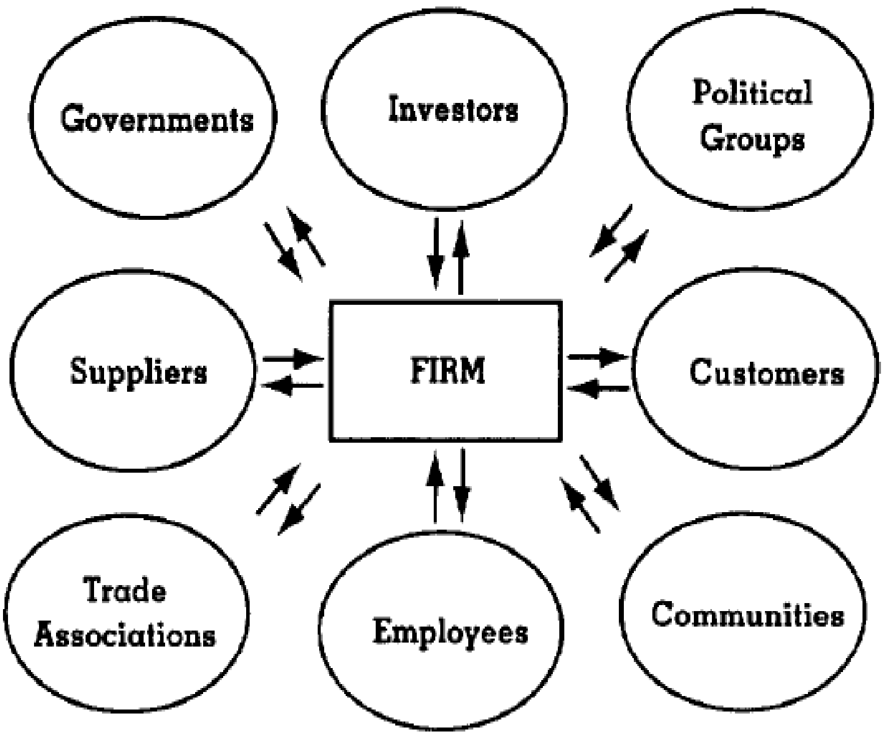
Pant and Yuthas; Wynn-William, 2003; Davila, 2000; Marginson, 2002; Haldma and Laats, 2002; Salmon and Joiner, 2005; Coenders et.al., 2003; Alexander and Alan, 1985), organization structure (Woodward in Azumi and Hage, 1972; Sandino, 2005). Furthermore, the area of research continues to be developed by focusing on predictor of corporate performance as done Gupta and Govindarajan (1984), Govindarajan and Gupta (1985), Govindarajan (1988), and Langfield-Smit (1997). with the findings that factors affecting corporate performance are matching of business environment, strategy, internal structure, and control system. The previous studies defined corporate performance by focusing on financial aspect. Not only do the corporate performance imbalance the financial aspect and non financial aspect, but the performance also does not accommodate other parties outside the market system. Therefore, the concept of corporate performance that is considering and measuring aspect of people (social) and planet (environment) as important part of a company's performance is needed.

The objective of this paper is to discuss the impact of the fit among business environment, strategy, organization structure, control system, and social performance on business performance.

Stakeholder Theory

Under stakeholder theory, a company has connection with stakeholders defined as any group or individual who can affect or is affected by the achievement of organization's objective (Freeman, 1994; Clarkson, 1995a, 1995b; cited in Amaeshi et al., 2007 and Moir, 2001). Based on this view, parties that are concerned with a company are not only shareholder as discussed in the previous theory, but also other parties or groups in society. Clarkson (1995 cited by Moir, 2001) and Gray et al. (1996) classified the parties or the groups into two categories: primary and secondary stakeholder. The primary stakeholders are those directly affecting and affected by the decision to be made by the firm. Those categories include suppliers, employees, investors, and customers. The second group called the secondary stakeholders is those in society affecting and affected indirectly by the firm's decisions. They include local communities, the public, business groups, media, social activist groups, foreign government, and central and local government. Consequently, the decision made by the firm should positively satisfy the two groups. The stakeholder view of the firm can be diagrammed in Figure 1.

This theory can be justified using three aspects (Donaldson and Preston, 1995 cited Cooper, 2004): descriptive accuracy, instrumental power, and normative validity. Descriptive accuracy of the theory explains that the parties related to a company are not only shareholder but also other parties such as employee, government, and community. They have to be considered in the company's decision making. Therefore, it has been argued that stakeholder theory is important due to the fact that the theory correctly reflects and predicts how business operates (Brener and Cochran in Cooper, 2004). Based on the argument of instrument power of this theory, a company using the stakeholder approach in managing the business will have improved organization performance in terms of economics and other criteria. That performance is important as sug-



Adopted from Donaldson and Preston, 1995

Figure 1: Stakeholder Theory

gested by Shankman (1999 and cited by Cooper, 2004) that a balance between the interests of different groups is needed in order for a company to continue to be viable and achieves other goals. On the other hand, this aspect will say that stakeholder theory is tool used to improve result. From the perspective of the stakeholder theory's normative validity, it can be argued that based on moral right of individuals a company should reconsider all parties related to the company. It will be not appropriate in terms of ethical for a company to maximize the shareholder's wealth and stakeholder theory should be used to achieve that goal (cooper, 2004).

According to stakeholder theory, corporations disclose social and environmental information as means to maintain their relationship with its stakeholders (Ullman, 1985). In this context, stakeholder theory framework is defined as a construct having three dimensions: stakeholder power, strategic posture, and economic performance (Ullman, 1985; Elijodo-Ten, 2007a and 2007b; Chan and Kent, 2003). Stakeholder power is an external dimension, consisting of shareholders, creditors and government power, affecting the condition of the company. The strategic posture factor, an internal dimension, is the corporation's capabilities and willingness to use its resources to improve social and environmental performance by integrating them with corporate strategy. The last dimension, economic performance, is the output of business activities that arise from corporate strategy implementations using economic indicator, such as profit. Under this framework, corporate social responsibility not only focuses on the philanthropic aspect (non market), but also embracing activities relating directly to market mechanism such as the responsibility to employee (labor relation) and to the customer in case of product responsibility.

Contingency Theory

Generally contingency theory states that organization's effectiveness will be contingent upon some factors often called contextual variable (see for example Hamberick and Lei, 1985; Gerdin and Grave, 2004). Furthermore, focus in contingency theory will be on fit between organization characteristics or management practices and the contextual variable in achieving the organization effectiveness (see for example Alexander and Alan, 1985; Doty et al, 1993; Gerdin and Grave, 2004). The organizational effectiveness can include economic or financial performance and other criteria such social and environmental performance as referred to the concept triple bottom line (TBL). The use of the contingency view as an alternative view to extreme view of business in both situations: specific and universalistic view is common and applied in any setting of management practices (Alexander and Alan, 1985; Gerdin and Grave, 2004) and also in corporation social performance (see for example Husted, 2000). One of the reasons of the commonly used contingency approach is due to the focus on the organizational effectiveness, a general and important organizational goal-related concept.

Concept of Fit in contingency theory in the context of CSP can be traced to the accounting and strategic management literatures. Based on the review of the literatures, it can be concluded that corporate performances are matching of business environment, strategy, internal structure, and control system (Lenz, 1980; Gupta and Govindarajan, 1982 and 1984; Govindarajan et al.,1988; Govindarajan, 1988; Tan and Lischert, 1994; Langfield-Smit, 1997).

Some important studies had been conducted to investigate the relationship of business strategy, control system, and organizational structure and environmental and social performance(Gerde, 1998; Pondeville, 2000; Husted, 2000, and Husted, 2001). In an effort to investigate stakeholders and organization design, Gerde (1998) used business strategy, control system, and organizational structure as the predictors of corporate social performance including the environmental aspect. His findings were that the variables did not increase the social performance. However, In his deductive study, Pondeville (2000) synthesized that control system and business strategy, as well as organization design (structure) have contributed to the environmental performance. In an effort to get good understanding of corporate environmental and social performance, Husted (2000) had constructed contingency model of corporate social performance. The fit between social issues and business strategy and structure had been predicted to affect the corporate social performance. Husted et al. (2001) in his deductive approach of another study developed a model called integrated view of business and social strategy. In the model, business strategy had been predicted to affect financial and social performance.

As mentioned by Olson et al. (2005), of

the factor affecting corporate performance (CFP) is the strategic behaviors in organization. In the context corporate social performance, the concept strategic behaviors can be extended using the stakeholder theory to explain the variation in business performance. According to Chen (1996); Gatignon et al. (1997); and Olson et al. (2005), the strategic behaviors can be identified into some components: customer-oriented behavior, competitor oriented behavior, innovation-oriented behavior, and internal-cost behavior. The concept can be extended using components of stakeholder as contended by Donaldson et al. (1995). Supplier-focused behavior, employee-focused behavior, society aspect-focused behavior, and environment-focused behavior are stakeholder-based behavior strategic to be expected to improve corporate performance.

Concept of Strategic Behavior

As stated by Ouchi (1977) and Robbin (in Olson et al, 2005), organization behavior refers to work related activities of member of organization. That is the behavior of the organization members. Any company is very concerned about controlling the behavior. That is done using a well designed control system (Snell, 1992). One instrument to be used in the control system is strategic behaviors that can lead to expected organization performance. Chen (1996); Gatignon et al. (1997); and Olson et al. (2005) listed the strategic behavior including: customer oriented behavior, competitor oriented behavior, innovation oriented behavior, and internal/cost oriented behavior. The list can be referred to input-output model of Donaldson et al. (1995). The list can also be extended using the contingency theory. Thus, corporate social performance is strategic behavior to be influenced using control system and, in turn, to be expected to improve the corporate performance.

Business Environment and Corporate Performance[1]

Investigation on why an organization or corporate has higher performance than other organization can be found in three bodies of research: industrial organization, business policy, organization theory research (Lenz, 1980). Based on review of the bodies of research, it can be found that performance variation in an organization or corporation can be explained using the variables of environment, strategy, and organization structure used (Lenz, 1980; Gupta and Govindarajan, 1984; Govindarajan and Gupta, 1985; Govindarajan, 1988; Tan and Lischert, 1994; Langfield-Smit, 1997). In addition, accounting literatures also contributed to explanation of the organization's performance variation (Gupta and Govindarajan, 1984; Govindarajan and Gupta, 1985; Govindarajan, 1988; Langfield-Smit, 1997; Abernetty, 2004; Abernetty et al., 2004 and 2005).

As one of the factors affecting the high of organization performance, organization or business environment can be defined as conditions that are normally changing and unpredictable an organization is facing. Lenz (1980) included market structure, regulated industry, and other relevant environments in the concept of the business environment as the factors to be affecting the corporate performance defined as corporate financial performance (CFP). Jaworski and Kohli

[1] In this paper term business, corporate, and company performance are used interchangeably for the same meaning

(1993) extended the definition of business environment as including market turbulence, competitive intensity, and technological turbulence. The market turbulence that is understood as the rate of change in the composition of customers and preferences can be a predictor of business performance (Jaworski and Kohli, 1993). An organization operating under market turbulence will tend to modify its product or services continually in order to satisfy its customers. Adversely, if the market is stable indicated by no change in customers' preference, the organization is not likely to change its product or service. Therefore, the market turbulence is expected to relate positively to organization performance. Competitive intensity is referred to market condition in which a company has to compete with. In the absence of competition, a company can perform well with no significant effort as the customers have no choice or alternative to satisfy their need. However, in the high competition indicated by so many alternatives for customers to satisfy their want, a company has to devote its best effort to satisfy the customers. Therefore, the competitive intensity is expected to relate positively to organization performance. The last aspect of business environmental is the technological turbulence that is meant simply as the rate of technological change. For a company having characteristic of sensitive to technological change, innovation resulting from the technological change can be alternative to increase the company's competitive advantage without having to focus more on the market orientation. By contrast, for the company with no innovation in technology, it should strive to focus more on market orientation. Therefore, the technological change is relating negatively to organization performance. This concept of business environment is in line with Simons' (2000) concept of strategic uncertainty including technological dependence, regulation and market protection, value chain complexity, and ease of tactical response. Technological dependence has been close to the technology turbulence, while regulation and market protection can be referred to competition intensity. The strategic uncertainty variables of value chain complexity and ease of tactical response parallel the concept of market turbulence.

Furthermore, based on review of organization environment literature, it can be found that business environment can be defined in general way as the source of information (Duncan, 1972; Lawrence and Lorsch, 1967; Tung 1979 and cited in Tan and Lischert, 1994) and as source of scarce resource (Tan and Lischert, 1994). As source of information, business environment is focused on perceived information uncertainty and subjective in nature, as source of scarce resource; business environment is resource dependence (Tan and Lischert, 1994). Based on the understanding, corporate performance can be controlled by using management ability to control over the resource. Meanwhile, the concept of business environment can also be viewed as multidimensional construct including three variables: dynamism, complexity, and hostility (Duncan, 1972; Lawrence and Lorsch, 1967; cited in Tan and Lischert, 1994). In the last concept, components of dynamism and complexity have been close to the perceived information uncertainty, while hostility is similar to the resource dependence (Tan and Lischert, 1994). Following the concept of business environment as multidimensional construct, Scott in Tan and Lischert (1994) and Jauch et al.(1980) had extended the concept of business environment becoming institutional environment including larger components similar to stakeholder concept. The dimensions covered include: (1) competitors, (2) customer, (3) suppliers, (4) technological, (5) regulatory, (6) economics, (7) social-cultural, and (8) international. Based on the construct defined in the previous studies, the business environment will come up with the increase or decrease in corporate performance as suggested by Dill (1958). Organization facing high uncertainty in business environment has less ability to attain the organization's goal. This argument has been echoed by Simons (2000) by asserting that the business environment is one of the factors resulting in the strategic uncertainty and, in turn, decreases the organization's ability to achieve the organization's goal.

In relating to the corporate social performance as means of strategic behavior (Higgin and Currie, 2004) had identified some variables affecting a corporate to be ethical or legal behavior in running the company resulting in the high of corporate social performance. The factors are: business climate, human nature, societal climate, societal climate, the competitiveness of the global business environment, and the nature of competitive organization Performance. Thus, arguments for business climate or environment discussed above, especially for the concept of business environment derived from the larger concept similar to stakeholder concept can be applied to the relationship between business environmental and corporate social performance.

Based on the arguments and finding from the previous studies, it can be concluded that when business environment is uncertain, the CSP will increase. The increase in the CSP, based on good management theory will increase business performance. This argument can lead to following proposition:

> P1: The increase in uncertainty of business environment will improve corporate performance by increasing CSP

Strategy and Corporate Performance

Concept of strategy is a complex concept and it leads to proliferation of definition of strategy (Lenz, 1980). Mintzbeg (1987 and cited in Simons, 2000) had classified the views on strategy, including strategy as perspective, strategy as position, strategy as plan, strategy as patterns of action, and strategy as ploy. Strategy as perspective refers to mission and vision of a company to be a base for all activities of the company. This will determine core value of the company. Strategy as position indicates the way a company will pursue to compete in the market. This view will lead to the use of Porter's typology of strategy: differentiation and low cost (Simons. 2000). Strategy as plan suggests short-term plan as series of long term plan in the strategy as position. In this view, a company can evaluate the success of the implementation strategy. Strategy as pattern in action is a company's action plan to cope with the failure of the strategy implementation. It is in this view emerging a new strategy called emerging strategy (Simons, 2000). The last, strategy as ploy is a tactic a company can do to fight with competitor. If the views of strategy can be well implemented, then strategy can be an important determinant of the company's performance. Furthermore, in practical, strategy choice for a company is depending upon the environment faced by the company. In this regard, Mitzberg (1973) defined the strategy as patterns of stream of decision focusing on a set of a resource allocation in an attempt to accomplish a position in an environment faced by the company. Using focus on decision as developed Mistzberg (1973), Ventakraman (1989b), Miller and Frieson (in Ventrakaman, 1990), and Tan and Lischert (1994) extended the concept of strategy using dimensionality approach including: (1) analysis, (2) defensiveness, (3) futurity, (4) proactiveness, and (5) riskiness.

There are some studies on the fit between strategy and corporate performance (CFP) identified by Fisher (1995) using the product life cycle as contingency factor and performance appraisal system as dimension control, Simons (1987) utilizing competitive strategy as contingency factor and budget flexibility as dimension of control system, Govindarajan and Fisher (1990) employing Porter typology as contingency factor and behavior and output control as dimension of control system, Govindarajan (1988) exploiting Porter typology as contingency factor and budget evaluation style and locus of control as dimension of control system, and Fisher and Govindarajan (1993) applying Porter typology and product life cycle as contingency factor and incentive compensation as dimension of control system. Except for Fisher and Govindarajan (1993) finding the conflict result, they supported the fit relationship to the performance. In more recent studies, Liao (2005) and Sandino (2005) contributed to the same finding as the prior studies mentioned above. Using the same fit, but with different position for the contingency factor, Albernethy and Brownell (1999) also provided the fit relationship to the performance.

Equivocal results from empirical studies into the CSP-CFP relationship point to the need for a contingent perspective to determine the conditions that affect the nature of the CSP-FP relationship (Rowley and Berman, 2000). Husted (2000), for instance, proposed that the CSP-CFP relationship is a function of the fit between the nature of relevant social issues and the organization's corresponding strategies and structures. Further, McWilliams and Siegel (2001) proposed that the impact of socially responsible actions on financial performance would be contingent on the economies garnered from the organization's size and level of diversification, product mix, advertising, consumer income, government contracts and competitors' prices. The products, markets and activities that define organizational strategy also define the organization's stakeholder set. Consequently, a firm pursuing socially responsible initiatives that lack consistency with its corporate strategy is not likely to meet the particular expectations of its stakeholders. Due to the stakeholder context of CSP, an organization's socially responsible initiatives will be assessed relative to standards important to its stakeholders (Wartick, 2002).

Based on the arguments and finding from the previous studies, it can be concluded that the strategic behaviors in the improved CSP will help the implementation of business strategy and, in turn, will improve corporate performance. The proposition of the situation is:

P2: The social performance as a company's strategic behavior is a means for the success of strategy implementation to improve corporate performance

Organization Structure and Corporate Performance

Corporate performance is highly determined by how effectively and efficiently the company's business strategy is implemented (Walker et al., 1987 and cited in Olson, 2005). The success of the company's strategy implementation is highly influenced by how well the company is organized (Vorhies et al., 2003; Olson, 2005) and the use of strategic behavior such as customer focus, competitor analysis, and innovation (see for example Chen, 1996; Gatignon, 1997; Olson, 2005). The organization structure is needed to manage the works in organization that are divided into small parts to achieve the intended strategy. It is the management of works leading to the emergence of variety of alternative of organization structure and, in turn, can shape the company. The organization structure can be defined using three constructs: formalization, centralization, and specialization (Walker et al, 1987; Olson et al., 2005). The three components are central points of Mintzberg's analysis of organization structure (Olson et al., 2005).

Formalization refers to the level of formality of rules and procedures used to govern the works in a company including decision and working relationship (Olson, 2005). The rule and procedure can explain the expected appropriate behavior in working relationship and address the routine aspect of works. As a result, people and organization itself can gain the benefit of using the rules and procedures. In this regard, the use of the rules and procedures can lead to the increase in efficiency and the decrease in administrative cost especially in the normal environment situation characterized by simple and repetitive tasks (Ruekert et al., 1985; Walker et al., 1987; Olson el at., 2005). A company with highly formal rules and procedures is called mechanic organization, while one with fewer formal rules and procedures is referred to organic organization (Burs and Stalker in Olson et al., 2005). Organic organization enables people in a company to have vertical and horizontal communication to manage the company's works. Therefore, benefit that can be gained from using the organic organization include rapid awareness of and response to the changes in competition and market, more effective information, reduced lag time between decision and action (Miles et al., 1992; Olson, 2005).

Centralization is a condition on whether autonomy of making decision is held by top manager or be delegated to the lower manager. In management literature, this construct includes two terms in the opposite ends: centralized and decentralized organization (Olson, 2005). In centralized organization, autonomy to make decision is held by top manager. Although fewer innovative ideas can be created in centralized organization, implementation of the decision is straight forward after the decision is made (Ullrich and Wieland in Olson, 2005). However, the benefit can only be realized in stable and in noncomplex environment (Olson et al., 1995; Ruekert, 1985; Olson et al., 2005). In unstable and complex environment indicated by rapid changes in competition and market, the use of organization structure providing the lower manager with autonomy of making decision is needed. In the decentralized organization, a variety of views and innovative ideas may emerge from different level of organization. Due to the fact that autonomy of making decision is dispersed, it may take longer to make and implement the decision (Olson et al., 1995; Olson et al., 2005). However, in the non routine task taking place in complex environment, the use of decentralized organization is more effective to achieve the organization goal as the type of organization empowers managers who are very close to the decision in question and to make the decision and implement it quickly (Ruekert et al., 1985).

Specialization is the level of division of tasks and activities in organization and level of control people may have in conducting those tasks and activities (Olson, 2005). Organization with high specialization may have high proportion of specialist to conduct a well-defined set of activities (Ruekert et al., 1985; Olson,2005). Specialist refers to someone who has expertise in respective areas and, in certain condition; he or she can be equipped with a sufficient authority to determine the best approach to complete the special tasks (Mintzberg in Olson, 2005). The expertise is needed by organization to respond quickly the changes in competition and market in order to meet organization goal (Walker et al., 1987).

In the case of nonissues, typical bureaucratic structures, referred to formalization aspect, work well. Information can be routed to the relevant specialist who can make decisions on the basis of standard corporate policies (Thompson & Tuden in Husted, 2000). Information is not disseminated widely, but directly to the individual decision maker. For example, rules in the form of ethics codes can work effectively to resolve problems to the satisfaction of stakeholders where stakeholders and the firm share similar values and understandings of what happened. Often, companies will have specific departments (those have been close to the type of decentralization and specialization constructs) to handle routine processes such as environmental assessment, corporate philanthropy, and public relations. These structures usually form the heart of a firm's ethics program (Center for Business Ethics, 1986). Research indicates that the presence of such routinized structures can have a positive impact on corporate social performance (Reed, Collin, Oberman, and Toy in Husted, 2000).

Based on the finding and the logic, the concern of this study is that the fit between organization structure and CSP will affect the financial performance. Proposition for this relationship is as follows:

> P3: Formalization, decentralization, ands specialization will improve corporate performance moderated by the CSP as strategic behavior in the company

Control System and Corporate Performance

In mapping the contingency-based control system and performance studies, Fisher (1995) classified the studies in four level of analysis. In the first level, relation between contingent factor and management control system was made without going further to see the impact of the organizational outcome (performance). In the second, third, and fourth level, analysis of the relationship between contingent factor and control system was conducted and related to the performance. The difference was placed on the choice of contingency factor and management control system. The second level dealt with one factor for contingency and one for management control system, while one factor for contingency and more than one dimensions of management control system was for the third level. The fourth level had more than one contingency factor and more than one dimensions of management control system.

Gul (1991) study investigated the interaction effect (fit) between management accounting system and business environment on company's performance and found that business environment defined as perceived environment uncertainty (PEU) affected the relationship between management accounting system and company's performance. At the second level of analysis, Ginzberg (in Fisher, 1995) used formality and procedural as dimension of control system design that interacted with environment found that the control system affected the performance, while Govindarajan (in Fisher, 1995) study that focused on performance appraisal system as a dimension of management control system concluded that the control system had effect on the performance. The both studies were supported by the Gul (1991) study.

In an effort to explain the role of management control system to improve corporate's competitive advantage, Pant and Yuthas, (2000) have stressed the importance of management control system to identify and build company's dynamic capabilities in order to improve its effectiveness (corporate performance-CFP). Wynn-Williams (2001) used public hospital setting in testing the role that management control system had played in explaining the determinant of effectiveness in the hospitals. In his study on management control system design in new product development, Davila (2000) also found the correlation between some variables of management control system and performance. Some other studies trying to relate the management control system and company's performance or effectiveness have been conducted by others (Marginson, 2002; Haldma and Lääts, 2002; Salmon and Joiner, 2005; Sandino, 2005; Coenders, Bisbe, Saris, and Batista-Foguet, 2003; Liao, 2005, and Alexander and Alan, 1985). In addition, using concept performance measurement system to refer to management control system, Kaplan and Norton (1996); Chenhall and Langsfield-Smith (1998); Mahama (2006) found that management control system has association to corporate performance (CFP).

One important function of Management Control system or control system for short is management tool to implement the organization strategy. Of the typologies in control system, Simons' (2000) typology is complete and comprehensive, including: belief system, boundary system, diagnostic control system, and interactive control system. In its development stages, the control system had undergone evolution in terms of approach used and complexity of environment faced by a company. The evolution included the use of direct control approach focusing on manager's observation of what is going on the company till indirect control approach relying upon accounting control. For the last evolution, it included using static and flexible budget till adopting the concept of profit or investment center (see for example Horngren, 1996). The concept of control system centers on the concept of bottom line (financial performance). Not only did the concept have some flaws on imbalances due to the domination of financial aspect, but also it created some paradoxical situation between control and innovation, opportunity and attention, and short term and long term goal, and human behavior. One reason of the problems is that the old concept of control had been defined as diagnostic control only. In that definition of control, the control process had been focused on the matter of routine mechanism or process of comparing some expected and realized performances. According to Simons (1995a, 1995b, and 2000), to avoid the problem concept of control should be extended by adding three more levers: belief system, boundary system, and interactive control system. The function of belief system is to inspire the people in an organization to search for new ways and alternatives by providing them with the organization's clear vision, mission, statement of purpose, and credos through using format and informal system. It is expected from the belief system mechanism, creativity and innovation in the organization will be continuously updated to meet the expected growth. The use of boundary system lever is meant to prevent unwanted impact of creativity and innovation by setting some rules limiting people to do in the form of code of business conduct, strategic boundary, and internal control. The role of interactive control system is to provide an organization with solution to cope with emerging strategic uncertainty and with new strategy given that emerging situation.

The careful and consistent use of the control system typology, often called levers of control, can lead to the improved performance (CFP). The following is discussion on how the components of levers of control can be associated with the performance and, therefore, the expectation of the impact of the use of components of the control systems on the relationship between CSP and CFP can be based upon.

Belief system is the one used in an organization to communicate an organization's core value to inspire people in the organization to search for new opportunities or ways to serve customer's needs based on the core values (Simons, 1994,1995a,1995b,2000). In an organization the belief system has been created using variety of instruments such as symbolic use of information. The instruments are used to communicate the organization's vision, mission, and statement of purpose such that people in the organization can well understand the organization's core value. Westly et al. (1987; cited in Simons, 1995) supported the use of the instrument by arguing that great leaders and competent managers understand the power of symbolism and inspiration. The benefit of using the symbolic instrument especially at individual level is also provided by Feldman et al. (1981) by delineating that symbols produce belief and belief can stimulate the discovery of new realities. In this regard, Westly (1987 cited Simons, 1994) contended that managers will not be very eager to participate in search for opportunities if they do not understand the beliefs of organization and are not get involved in converting the beliefs into actions and strategies.

There is a need for an organization to

formally communicate the core value, especially when it is facing the dramatic change in business environment such as competition, technology, regulation and other factors. The Change in the business environment creates a need for strong basic values to provide organizational stability (Simons, 1995b). The importance of understanding the core is also supported by study of Kotter (in Simons, 1995b) concluding that inspirational motivation can be created by (1) communicating vision that can address the value of people in an organization, (2) permitting each individual to be pleased about how he or she can contribute to implementation of that vision, (3) Providing eager support for endeavor, and (4) promoting public recognition and reward for all success.

The belief system can make people in an organization inspired to commit to organization goal or purpose. In this regard, commitment means believing in organizational value and willing to attempt some efforts to achieve the organizational goal (Simons, 1995). Therefore, the goal commitment can lead to improved corporate performance (Locke et al., 1988). The conclusion is consistent with what Klein et al. (1998) found in their study on situation constraints including goal commitment and sales performance. Chong et al.(2002) studying the effect of goal commitment and the information role of budget and job performance provides the same finding.

The resultant of belief system is new opportunities that may contain some problems. The boundary system concerns on how avoid some risks of innovation resulting from the belief system (Simons, 1994). The risks that possibly emerge can be operating, assets impairment, competitive, and franchise risks (Simons, 2000). On the other hands, the boundary system provides allowable limits for opportunity seeker to innovate as conditions encouraged in the belief system.

There are two instrument used in boundary system to establish the limit in order avoid the risks: business conduct and strategic boundaries (Simons, 1995; Simons, 2000). The business conduct boundaries are focused on behavior of all employees in an organization. The source of the boundaries is of three folds: society's law, the organization's belief system, and codes of behavior promulgated by industry and professional association (Gatewood and Carroll, 1991; Simons, 1994). When uncertainty resulting from new opportunities is highly or internal trust is low, the business conduct boundary is highly needed (Kanter in Simons, 1994). In the environment of high uncertainty, Merchant (1981) found that chances to manipulate the profit figures by managers is high. The manipulation is one of risks that can endanger the managers' company. Therefore, the business conduct boundary will be imposed in that situation to avoid the risk and, in turn, improve the corporate performance. The low in internal trust can result in the absence of shared commitment to the organization goal. No commitment to goal can affect the corporate performance. The objective of applying the business conduct boundary is to maintain the employee's commitment to organization goal and, in turn, can improve the performance.

Strategic boundaries are defined as rules and limitation applied to decisions to be made by managers needing the organization's resource allocation as response of opportunities identified in the belief system (Simons, 1995 and 2000). Application of ROI of 20% as hurdle rate in the capital budgeting decision is one example. Updated of negative list on business area that is not allowed to go into is another example. In his study using case approach in UK Telecommunication company, Marginson (2002) found that the boundary system-strategic boundary can motivate people in that company to search for new ideas or opportunities within the prescribed acceptable area. Thus, if well implemented, this system can avoid the potential risks and, in turn, can improve the organization performance.

Diagnostic control system is the one used by management to evaluate the implementation of an organization's strategy by focusing on critical performance variables, which is the ones that can determine the successful of strategy implementation and, at the same time, can conserve the management attention through the use of management by exception (Simons, 1995 and 2000). As a system relying upon the feedback mechanism, the diagnostic control system is an example of application of single loop learning whose purpose is to inform managers of outcomes that are not meeting expectation and in accordance with plan (Argyris in Simons, 1995; Widener, 2006 and 2007). The single loop learning is a part of organization learning that indicates benefits of implementing management control system in general. Organizational learning originates in historical experiences that are then encoded in routines (Levitt and March, 1988; cited Widener, 2006 and 2007). Based on historical experiences, the organization adopts and formalizes "routines that guide behavior" (Levitt and March, 1998, 320). Therefore, control system can be said to be a learning tool. To support this conclusion, Kloot (1997), in his study using case study approach, investigated the link between control system and organizational learning and found that control system can facilitate organization control. Based on organization theory literatures, organization learning has impact on performance (Slater and Narver, 1995; Levitt and March, 1988). The argument underlying the association is that organization learning is very critical to competitive advantage. Organization with learning orientation will have improved performance (Tippin and Soha, 2003). Chenhal (2005) provided support for the finding by investigating the relationship control system and delivery service using organization learning as mediating variable.

In addition to providing organization learning aspect, the use of diagnostic control system also can conserve management attention trough the application of management by exception tool (Simons, 1995 and 2000). With the tool, the control system reports to management only if the deviation things happen. Therefore, efficient aspect will be resulted from the use of the tool. Simons (1991) also provided empirical evidence from the health care industry that managers feel overloaded with information if their attentions are focused on broad scope of control attributes and concluded that diagnostic control system could facilitate the efficient use of their attentions. According to Schick et al. (in Widener, 2006 and 2007), the information overload occurs when demand for information exceeds its supply of time. To encourage the efficient use of management attentions (time), the management attentions should be focused on the critical success factors and core competence that are likely associated with improved performance.

In an attempt to implement the organization strategy, it is necessary to note that strategy initially set in strategic planning, often called intended strategy, in the classification of Mintzberg's (1978) typology of strategy, may not become realized strategy due to the fact that any strategy has inherent strategic uncertainty defined as external factors resulting from market dynamics, government regulation, and dramatic change in technology triggering the intended strategy become invalid (Simons, 1995; Simons, 2000). He proposed the use of Interactive control system to solve the obstacles. The control system will detect the driver of intended strategy invalidity and follow them up by working together between top managers and their subordinates to create dialog and to share information in order to solve the problems. This process, if well designed, can stimulate double loop learning in which the search, scanning, and communication process allow new strategies emerge, strategy of which, in the Mintzberg's (1978) strategy typology, often called emerging strategy. Levit and March (1988) echoed that situation by stating that if the structural problems in organizational learning cannot be eliminated, they can be mitigated. In their study in the hospital area, Albernetty and Brownel (1999) also support the conclusion that interactive control system can facilitate the organization learning. Considering the importance of organization learning as mentioned above, the process in turn can improve the organization performance.

Most prior literature considering the motives for socially responsive decision making derives from the business ethics literature. Considerable attention has been given to determining the factors that influence 'ethical' organizational decision making (Soutar et al., 1994). For example, models of ethical behavior have been developed which indicate there is a set of situational variables which interact with and influence ethical

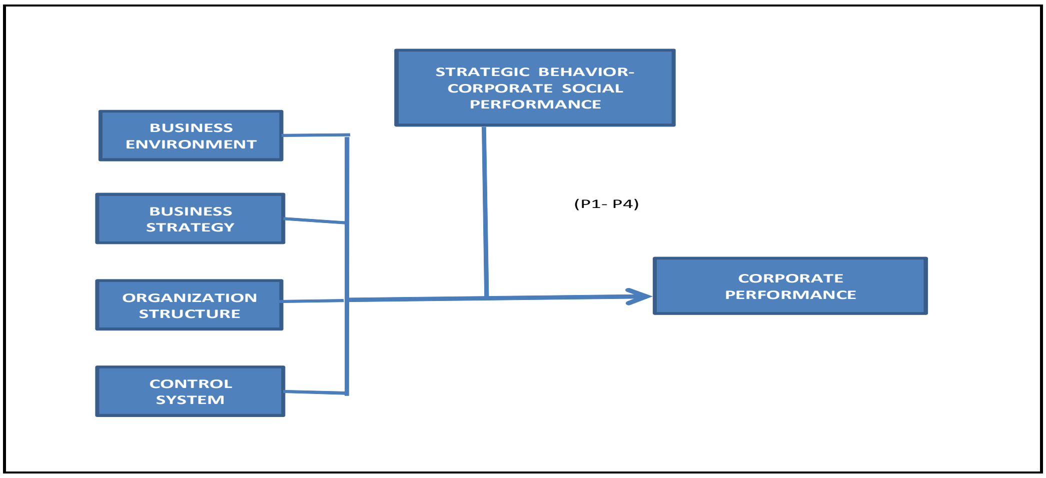


Figure 2: Contingent CSP of the relationship Business Environment, Strategy, Structure, Control System, and Performance

decision making processes (Bommer et al., 1987; Stead et al., 1990; Trevino, 1986). One set of situational variables deemed to influence ethical decision making include work environment and organizational factors (Bommer et al., 1987; Falkenberg and Herremans, 1995; Singhapakdi et al., 2000; Verbeke et al., 1996). For instance, employee socialization processes aimed at internalizing socially responsive/ethical standards within individual employees have been held to influence socially responsive decision-making (Smith and Carroll, 1984; Soutar et al., 1994). Control systems are deemed to form an integral part of employee socialization (Gatewood and Carroll, 1991). They support the development of an organization's culture, the system of shared beliefs, values, norms, and mores of organizational members (Glands and Bird, 1989), which is deemed to be a primary determinant of the direction of employee behavior (Robin and Reidenbach, 1987; Trevino, 1986).

Based on the finding and the logic, the interaction components of control system and the strategic behavior-CSP can improve the company's goal (performance). The proposition is as follows:

> P4 The appropriate interaction of control system and strategic behavior will improve a company's performance.

Conclusion

The paper argues that the contextual variables as discussed in strategic management domain will be contingent upon strategic behaviors, which are behaviors of members in an organization. Corporate social performance defined as stakeholder relationship become one important dimension of the strategic behaviors that an organization can set to improve corporate performance.

The theoretical implication is that to be successful strategic behavior, CSP should be tied to the corporate culture and a part of the company's core value. It means that CSP cannot view as philanthropic activities. Rather it is means to maintain the stakeholder relationship.

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