Management control in creative firms

Nathalie Beckers

Lessius – KU Leuven

Martine Cools

Lessius – KU Leuven- Rotterdam School of Management

Alexandra Van den Abbeele

KU Leuven

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- Research context
- Defining management control
- Research objectives
- Literature review:
 - Management accounting and control literature
 - Creativity typologies
- Exploratory qualitative study (*analysis in progress*)
 - Research method
 - MC instruments used
 - Link between MC and different types of creativity
- Preliminary conclusions

- Importance of creativity and resulting innovations in today's business environment (Amabile & Khaire 2008)
- However: innovation is a risky activity
 - ACCOUNTING plays an informative role
 - Financial accounting literature: valuing intangible assets – intellectual capital (e.g. Basu & Waymire 2008, Cañibano et al. 2000, Van der Meer-Kooistra & Zijlstra 2001)
 - Management accounting and control literature: only recent attention to MC issues related to innovation and creativity

- Process by which management:
 - ensures that people in the organization carry out organizational objectives and strategies;
 - **encourages, enables, or, sometimes “forces” employees to act in the organization’s best interest.**
- Management Control System (MCS)
 - includes all the devices/ mechanisms managers use to ensure that the behavior of employees is consistent with the organization’s objectives and strategies (Merchant & Van der Stede 2007).

- MCS is one of the tools for implementing strategy
- It includes
 - Strategic planning
 - Budgeting
 - Resource allocation
 - Performance measurement, Evaluation, Reward
 - Responsibility center allocation
 - Transfer pricing

1. Review of management accounting & control literature related to innovation – creativity
2. Exploratory qualitative study on the design and use of the MCS in creative companies
 - Link between use of certain MC instruments and different types of creativity?

Article	MCS focus	Topic	Research method
Ittner et al. 1997, Yanfeng 2007, Ghosh et al. 2007	MCS design at top level	Management compensation: CEO bonus contracts, innovation investment decisions, CEO stock ownership and R&D investments	Archival studies
Holthausen et al. 1999	MCS design at BU level	Structure of executive compensation in relation to long-term components	Archival study
Bisbe & Otley 2004, Bisbe & Malagueño 2009, Henri 2006, Revellino & Mouritsen 2009	Formal use of MCS at top management level	Interactive versus diagnostic use of MCS (refining Simons 1990, 1991, 1995, 2000)	Surveys and case study

MCS in development departments

Article	MCS focus	Topic	Research method
Abernethy & Brownell 1997	MCS design in R&D departments	Accounting vs non-accounting controls, especially in the form of personnel controls	Survey
Hertenstein & Platt 2000, Davila 2000, Davila & Foster 2009	MCS design in new product development departments	Performance measures reflecting the need to integrate NPD and strategy, better cost and design information for NPD performance, adoption of MCS in early-stage entrepreneurial firms	Survey and case studies

Article	MCS focus	Topic	Research method
Chang & Birkett 2004	MCS design at individual level	Balance creativity - productivity of professional workforce; setting competency standards	Case study
Kachelmeier et al. 2008, Kachelmeier & Williamson 2008	MCS design at individual level	Influence of performance-based compensation on worker productivity: incorporation of non-financial performance measures like quantity, creativity or both; self-selection of compensation contract	Experiments

- Observations:
 - Dominance of studies on MCS design/use and innovation
 - MCS literature on the paradoxical balance of creativity and control is still in its infancy (Davila et al. 2009)
 - Recent experiments on design of the compensation contract to stimulate creativity
 - BUT lack of literature on
 - Stimulating creativity of teams (cf. Leenders et al.)
 - Needs for MC instruments by top versus lower levels of organization
 - Stimulating creativity in inter-organizational relationships
 - Stimulating different types of creativity

Creativity types (Unsworth 2001)

Creative types		Drivers for engagement	
		External	internal
Problem type	Open	EXPECTED CREATIVITY: required solution to self-discovered problem	PROACTIVE CREATIVITY: volunteered solution to self-discovered problem
	Closed	RESPONSIVE CREATIVITY: required solution to specified problem	CONTRIBUTORY CREATIVITY: volunteered solution to specified problem

- Which management control instruments are used in design-type companies?
- Do we find a link between different types of creativity and different focus of the MCS?

- Design-type companies:
 - Interesting setting for our study ~ nature of their activities
- Data gathered from 12 selected design companies
 - active in product design, industrial design and furniture design
 - 1 large, 1 medium sized, 3 small, 7 micro firms
- Data

Interviews	12 interviewees (principal designer of the MCS: CEO, CFO, manager and designer, managing director)
Documents	Website Design Vlaanderen, Belfirst (financial data), websites of the companies etc...

- Open questions
 - Different types of MC instruments (Merchant & Van der Stede 2007):
 - Results control
 - Action control
 - Social control
 - Types of creativity in the organization
 - Importance and management of creativity

- Closed questions:
 - Checklist on MC instruments (Davila & Foster 2005)
 - Financial planning,
 - financial evaluation,
 - HR planning,
 - HR evaluation,
 - Strategic planning,
 - Product development management,
 - Sales/marketing management,
 - Management of partner relations

- In progress
 - Coding full transcripts in Nvivo
 - Setting up thematic matrices (Miles & Huberman 1998) about the different types of controls
 - Formal controls: results/behavior controls
 - Informal controls: Personal-social controls
 - Investigating link between MCS in use and type of creativity stimulated
 - Here: overview of preliminary insights

- Results control
 - Enhances autonomy of employee
 - Compensation of employee
- Autonomy:
 - 62% of respondents : importance of freedom
 - At the same time, processes are followed up carefully by the managing directors of the companies
 - 37,5% of respondents : need to provide a clear frame and supervision

- *"Sommigen zeggen altijd dat creativiteit niet iets is dat op bestelling komt maar dat komt plots. Maar ik blijf persoonlijk niet wachten op die heilige geest. Soms zie je niet altijd of ze aan het nadenken zijn of aan het slapen zijn. Maar volgens hen zijn ze dan natuurlijk aan het nadenken. Ik wil maar zeggen als je daar te veel vrijheid in geeft dan gaat men daar wel een beetje misbruik van maken en dat is natuurlijk niet de bedoeling. Het is wel de bedoeling om ze achter hun veren te zitten" (een financieel directeur, maart 2009).*

- Compensation: rewards for performance in 50% of our cases
 - 20% of the respondents use financial compensation
 - bonuses per quarter
 - Participation in the firm's profits
 - 30% of respondents use non-financial compensation
 - Other 50% find it difficult to stimulate creativity with a monetary or non-monetary bonus

- Action controls:
 - Restrictions related to certain products
 - Budgetary constraints
 - Deadlines

- Budgets:
 - 40% of respondents: informally discuss budgets used
 - 16% of respondents: creative employees set up own budgets
 - No 'punishment' when budgets are not respected
 - Respondents were unanimous about the hindering effect of budgets and financial reporting for creativity of employees

- Deadlines
 - Arise under different circumstances
 - For 66% of respondents, deadlines have a stimulating effect
 - *"Ja, ik denk dat het altijd wel moeilijk is. Ik merk aan mezelf en aan de gasten hier dat hoe dichterbij de deadline komt en hoe harder je onder stress staat, dan presteren de mensen aan 150 %. Als we minder werk binnen halen dan zit iedereen hier een beetje te werken. Als we veel werk binnen halen doen we op dezelfde tijd eigenlijk twee keer zo veel, maar dat is eigen aan de mens, denk ik" (een zaakvoerder, maart 2009).*

- Social controls
 - Teamwork: very important, informal encouragement to form teams, teaming up with external partners
 - Functional job descriptions: exist but are not respected
 - Possibility to work outside of the own profile, personnel rotation, team rotation are stimulating the creative employee
 - Lots of informal events to stimulate team spirit
 - Selection of new employees
 - No clear criteria, especially based on click with existing employees

- Observed in the cases:
 - RESPONSIVE CREATIVITY:
 - Designers working upon explicit request by external party
 - EXPECTED CREATIVITY:
 - Designers bringing their own projects to the market
 - PROACTIVE CREATIVITY – CONTRIBUTORY CREATIVITY
 - Various examples of spontaneous creative suggestions in both settings

- Two groups: striking distinction in thinking between the micro firms:
 - No formal MCS, 'thrust', But 'deadlines make more creative'
 - Stress importance of formal MCS: tight budgeting makes more creative

- Two groups: striking distinction in thinking between the micro firms:
 - No formal MCS, 'thrust', But 'deadlines make more creative'
 - No clear examples of contributory/proactive creativity
 - Stress importance of formal MCS: tight budgeting makes more creative
 - Interviewees referred spontaneously to internal creativity
 - CONTRIBUTORY – PROACTIVE CREATIVITY

- Results control is less important than expected
<-> Amabile et al. 2004, Kachelmeier et al. 2008,
Kachelmeier & Williamson 2008
- Action control is more important than expected
 - Stimulating role of deadlines, budgets
- Social controls are important, as expected
 - Recognition by colleagues, teaming up, good atmosphere, intrinsic motivation are stimulating factors

- MCS dominated by formal controls – INTERNAL CREATIVITY
 - Leader installs action – results controls to stimulate hard work
 - Set the necessary frame for creative thinking
- MCS dominated by social controls
 - selection of intrinsically-motivated, talented people : RESPONSIVE CREATIVITY
 - creativity reached through teamwork (with controls aimed at stimulating networking and team-spirit): EXPECTED CREATIVITY - EXPECTED CREATIVITY