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MANAGEMENT CONTROL SYSTEM AND NIGERIAN FIRMS PERFORMANCE FROM INSTITUTIONAL THEORY PERSPECTIVE

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ABSTRACT

The paper intends to demonstrate how institutional problem among Nigeria firms led to the pervasive managerial weakness that hamper the performance of many firms. Many practices were found to be commonly adopted by Nigerian firms which were developed as a result of pressures from the business environment. This led to a weak Management control system (MCS) that could not be in congruence with the firms' strategic goals. These weak MCSs were copied by many Nigeria firms as such result in poor performance which many studies could not figure out thereby, leaving the area unexplored. Many studies tend to focus on poor performance from the contingency theoretical perspective thus, ignoring the impact of mimetic, coercive and normative isomorphism in the development MCS among Nigerian firms. Therefore, the study depicts a framework consisting of some crucial element of control adapted from Malmi and Brown (2008) MCS package; planning control, administrative control and cultural control which if empirically investigated would demonstrate the extent of its adoption by Nigerian firms and how they could trigger better performance. The poor use of these controls among firms portrays the presence of isomorphic pressures on the MCS practice. This suggest the need for more enlightenment of Nigerian managers on the need to adopt improved MCS practice as it would lead to reverse institutional changes, where isomorphic pressure would lead to the adoption of better MCS practice that could consequently lead to better firms performance. Though the paper is conceptual in nature thus, requires empirical research to address the pervasive firms' poor performance in the light of institutional theory.

Keywords: Management control system, institutional change, mimetic isomorphism.

INTRODUCTION

Nigeria has 186 listed firms covering eleven sub-sector of the economy under the umbrella of Nigerian stock exchange commission. The stock exchange is one of the largest stock markets in African sub-Sahara region and has a market capitalization of N9.55 trillion with all share index of 27,810 (NSE, 2016). Listed Nigerian companies are being faced with challenges which lead to continuous delisting and taking over of companies by the regulatory body as well as the issuance of new codes of best practice (NSE, 2016; Adewuyi & Olowookere, 2013; Okpara, 2011). The need for best practices made the Corporate Affairs Commission (CAC) and Securities and Exchange Commission (SEC) to issue series of improved code of

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corporate best practices (Adewuyi & Olowookere, 2013).Despite these efforts, issues of governance were still being raised year in year out which become detrimental to the economy. Nigeria listed companies are often poorly managed, which leads to the reduction in their productivity (Mckenzie & Roberts, 2011; Ajibolade, Arowomole, & Ojikutu, 2010). The problem is more apparent in larger firms (100+ employees), with complex operations that require formalised management practices (Mckenzie & Roberts, 2011). For instance, the poor performance in textile sub-sector alone accounted for the loss of over 150,000 jobs within the last two decades (Nmadu, 2012). The problem is so pervasive and reflected in almost all the institutional setting of the country (Daloz, 2005). Many firms were unable to institute a system of check and balance, thereby creating room for routines and practices (MCS) that could not result to better performance (Ehikioya, 2009) which is common among Nigerian firms. As the desire of other organization to adopt similar strategies, structure and process led to the resemblance of practices espoused by other firms(DiMaggio, Powell,1983; Suddaby, 2010).

Therefore, to arrest the problem, there is a need for the design and implementation of robust management control system (Hereafter referred to as MCS) which would introduce institutional reforms for more efficient firms' performance. The above assertion is buttressed in the works of Myeong-Gu et al., (2002), Dacin et al., (2002), Seo & Creed (2002), Lounsbury (2008), Sharma, Lawrence and Lowe (2010) were implementation of elements of MCS and other managerial techniques such as cultural control, corporate governance, benchmarking and total quality management had led to institutional changes through micro process. Introduction of robust MCS among Nigerian listed firms could improve their performance through the institutionalization of strong routine and practice across the institution. The current MCS practice implemented in Nigerian listed firms were found to have some practice similarities (Ehikioya, 2009; Khongmalai, Tang, & Siengthai, 2010) as a result of their institutional background. Practices and routines were shaped over time by mimetic, coercive and normative isomorphism (DiMaggio & Powell, 1983). Thus, listed Nigerian firms have their instituted management control practice which finds their root via issued guidelines, legal frameworks, cultural practice and innovative management techniques (Okpara, 2011; Watts & Mead, 2005). Thus, the institutional theory would be employed to investigate the relationship. Therefore, the study would be conducted in light of institutional theory to explain how the adoption of MCS elements could replace the existing institutional routines and practice and elicit institutional changes which may, in turn, result in improved performance.

The study of organizational heterogeneity, continuous change, and practice variation had become an important perspective for institutional research (Dacin et al., 2002; Myeong-Gu et al., 2002; Schäffer et al., 2008). Meanwhile, in recent years 'change' had been a major subject that elicited series of debate in management accounting literature (Joa & Scapens, 2010). This broadened the scope of institutional research beyond isomorphism and symbolic conformity by focusing on actors and practices and the relationship between micro-processes and institutional forces (Lounsbury, 2008). Due to the divergent view on the factors that influence performance, many researchers are of the opinion that certain institutional factors had contributed to the weak MCS routines (Ajibolade, Arowomole and Ojikutu 2010) which hinder performance among Nigerian firms.

The study attempts to explore the effect of the three element of MCS package by Malmi and Brown (2008) which includes planning control, administrative control and cultural control on the Nigeria firms' performance. These controls were found to have changed over time to suite the firms as a result of some institutional pressures. Therefore, the institutional pressure through mimetic, coercive and normative isomorphism(DiMaggio & Powell, 1983) created a practice the impedes the controls thereby, hindering firms performance. This poor performance was majorly attributed to some institutional practices and routines that hinder performance. To reverse the problem, institutional change is needed which could be achieved through micro-process by implementing planning control, administrative control and cultural control in line with Malmi and Brown (2008) MCS perspective.

LITERATURE REVIEW

Management control system

MSC had experience changes in focus due to transition period, which cumulated to varying definition (Hewege, 2012). Inconsistency, lack of clarity, wide variation in the conceptualization of MCS had created some problems in the interpretation of research results and the design of MCS (Malmi & Brown, 2008). This argument was supported by Chenhall (2003) where he posits that MCS has evolved over years from the one focusing on formal, financially quantifiable information to assist managerial decision-making to the one that consists broader scope of information (clan and personal).Therefore, extant literature emanates with differing focus, some focusing on a single item and some with unconnected elements of MCS (Chenhall, 2003). Though, both types of studies are useful as they address issues in different ways. In the same vein, Malmi and Brown (2008) demarcated between information system or decision-making and control system. Emphasizing that there are some accounting systems that are put in place only to supply information for manager's decision making which should not be considered as control. As they are not meant to influence subordinate toward goal attainment as such, should not be referred to as control system(Malmi & Brown, 2008; Zimmerman, 2001).

Malmi and Brown (2008) provides a framework that describes MCS as all tools, systems, values and other activities management can use to direct employee behavior to be congruent with the organizational goals (Malmi and Brown, 2008). Thus, MCS have to be complete systems and not the only set of rules. Malmi and Brown (2008) have criticized recent MCS literature for neglecting the fact that MCS acts as a package, not one or two elements of control. Prior the coming of Malmi and Browns (2008) MCS package several research works highlighted the need for MCS to be examined as a package (Chenhall, 2005; Ferreira & Otley, 2009). Malmi and Browns (2008) typology consists of five elements of controls that act as a package of MCS.

Planning Controls

Planning Controls Planning is an ex-ante form of control, meaning that a set of controls are laid beforehand to achieve a goal. Planning control is classified into three. The first it gives direction to different functional areas in the organization, which leads to a clear direction of effort and behaviour. Second, planning informs different functional areas of the expected level of work effort needed to achieve goals of the organization. Finally, planning is use to co-ordinate members by adjusting the differing sets of goals in the different functional areas of the organization (Malmi & Brown, 2008). Bruns and Waterhouse (1975) find that large, diverse and decentralized firms give more emphasis to administrative controls.

Administrative Controls

Administrative controls are systems that control employee behaviour by organizing individuals and groups as well as holding employees accountable for their behaviour and six various responsibilities. An administrative control is categorized into two; Organization design and structure, governance structures, and the procedures and policies (Malmi& Brown, 2008). It provides a basis for other as it prescribes a policy statement need in the implementation of other control (Spring, 2009).Administrative controls direct employees' behaviour and make them accountable through governance structure, organisational structure, policies, and procedures (Zheng, 2012). Therefore, an organisation structure could serve as a good basis for effective management control system in a firm. Lack of coordination between the change efforts arising in different locations and organisational levels shows weaknesses in the system of control. Little is published in accounting-based research about how control systems operate across organisational levels and how they manage change.

Cultural Controls

Culture is definedby Flamholtz, Das, and Tsui (1985) as "set of values, beliefs, and social norms which tend to be shared by its members and in turn, influence their thoughts and actions". Malmi and Brown (2008) explain that cultural control occurs when an organization tries to control its member's behavior, to reflect the firm's core values that could lead to the achievement of company's goal. Culture had become a prominent element of control in organizational research as such was conceptualized in different form depending on the researchers focus; Risk culture, learning, organizational culture perception, ERP culture, national culture, value based culture (Harris, 1998; Henri, 2006; Langfield-smith, 2004; Althonayan, Killackey, & Keith, 2012; Schoenfeld, 2013; Yeboah, 2014). Therefore, the concept of culture remains broad and diverse as such requires in-depth empirical studies, especially in non-western countries. Study of culture in Nigerian dispensation is important because the mainstream management control research has failed to explain complex issues that are inter-woven with socio-cultural aspects unique to non-Western countries (Hewege, 2012). Therefore, if Nigeria firm could develop a cultural control in accordance to their environment it would improve employee commitment and goal orientation.

Institutional Isomorphism

Institutional isomorphism depicts rules, symbols and beliefs that are impose on firms to seek its social legitimacy(Hared, 2014). Institutional isomorphism is divided into three categories: mimetic isomorphism, coercive isomorphism and normative isomorphism. Mimetic isomorphism is the isomorphism that come up as a result of other firm intension to copy practice structure that the find useful and better (DiMaggio & Powell, 1983): This con isomorphism does not happen as a result of coercive pressures, a firm looks for successful organizations to imitate its MCS(Hared, 2014). Also some firms find it easier to copy other than developing their own internal structures and procedures (Abernethy & Chua, 1996; Ribeiro & Scapens, 2006). Coercive isomorphism arises from both formal and informal pressures exerted on firms by other agents, which they depend on, by cultural beliefs or settings in the society (DiMaggio & Powell, 1983). These pressures are exercised through the need for resources as well as law and regulations exerted on organization (Hassan, 2005). In line with new institutional sociology theory of coercive isomorphism, the form of MCS is the result of the external factors that affect organizations(Hared, 2014) while, MCS practices will be subjected to coercive pressure of the formal and non-formal pressures (Hared, 2014; Sharma, Lawrence, & Lowe, 2010).

The activities of expert and professional can as a result to isomorphism. In this isomorphism structures, methods and procedures are defined by the foremost professions, professional bodies, or drivers of some occupation(Hared, 2014). According to Abernethy and Chua (1996) normative isomorphism is “when professionals operating in an organization are subject to the pressures to conform to a set of norms and rules developed by occupational/professional groups”. Normative isomorphism occur formal education that is produced by the specialized institutions and professional training centres.

Institutional change

Seo and Creed (2002) put forth the idea of institutional contradiction as an incentive for institutional change. He demonstrated how social interactions within firms produce contradictions, leading to conflicts and tensions that may shape consciousness and action to change the existing routines. As conformity with environmental arrangements may conflict with technical activities and efficiency needs for organizations(Sharma et al., 2010). This could be explained in Nigeria context were continuous poor performance in Nigeria due to institutional degradation led to the introduction of enterprise risk management (ERM), corporate governance, committee of sponsoring organizations advocacy, ISO certification and deployment of ERP among others (Su, Shatat, & Udin, 2009; Aebi, Sabato, & Schmid, 2012; Ehikioya, 2009; Ernesto, 2013). The practice was subsequently legitimized and adopted by many successful firms in the country. This happened because institutional isomorphism increases legitimacy as such becomes an adaptive move by organizational actors for their business survival (Seo and Creed, 2002). In support of the concept, MCS researchers depict how actors, for better firms’ performance, could introduce institutional changes.

Research on benchmarking, cultural control, total quality management, corporate governance were conducted and found to have institutional influence in some industries through micro process (Deshpandé & Farley, 2004; Joa & Scapens, 2010; Sharma et al., 2010; Watts & Mead, 2005).Sharma, Lawrence and Lowe (2010) demonstrate how institutional contradictions impact to create a space for institutional changes, which in turn, alter the existing practice via new routines that were institutionalized. Also, in the case of Nigeria, the incessant failure of banks was curtailed by the central bank of Nigeria institutionalizing effective risk management in 2009. Therefore, strong MCS introduced among Nigerian firms could create institutional contradiction and afterward result in the adoption of (MCS) as the best practice in the institution.

Therefore, the study in light of institutional change would depict how MCS would be used as set of rules and routines that could initiate micro process and be adopted as institutionalized practice. According to Burns and Scapens (2000), the rules are "formally recognized ways in which things should be done." Routines are "patterns of thought and action which are habitually adopted by groups of individuals. Thus, MCS package would be introduce in the framework as new rules and routines that are to be implement in the organizations, which would be diffuse over time. Burns and Scapens (2000) further disintegrate the process of institutionalisation into new processes: 'encoding'; 'enacting'; 'reproduction'; and 'institutionalisation.

This institutional problems if met with the need for new MCS practice would triger what is termed as institutional contradiction which is conceptualize by Seo and Creed (2002) as inefficiency, non-adaptability, incompatibilities and misaligned interests. Therefore, from the perspective of this study MCS variable are expected to bring about institutional change via Praxis like the collective action of management and employee (with the deployment of MCS package) and shift in consciousness and stakeholders persuasion for the adoption of best practice. This is in line with Burns and Scapens (2000) postulation that states administrative practise kept in the routine would through time become part of the group beliefs and presupposition so that people do not even question them.

CONCEPTUAL FRAMEWORK

The framework below is developed to demonstrate how the implementation of effective planning control, administrative control and cultural control could enhance firm's performance. This because MCS is linked to the strategic goal of a firm therefore, it pursue only viable control that could improve performance as against the traditional use of controls which were found to stifle performance. Thus, the enhanced performance could trigger institutional change among firm as professional, government agencies and other interest group would exert pressure on their firms' managers to follow suit.

Planning Control and Firms' performance

Planningis broadly classified into two; long-term (strategic) and short term (operational) (Malmi & Brown, 2008). They are both argued to improve performance example; Khuong, (2002) who investigated the effect of long-term planning on organization found that the effective utilization of long-term strategic planning improves financial performance and growth of a firm.

However, Planning control has been investigated with varieties of variable ranging from; formulation, implementation, competitive strategy, objective and programs (Hanzlick & Bruhl, 2013; Khuong, 2002; Sheldon, 1998). Meanwhile, Malmi & Brown (2008) typology separated planning control from cybernetic control. Hanzlick & Bruhl, (2013) who adapted MCS package, investigated planning control against German firms and found that companies devote most effort into short-term planning, as against long-term. Planning is an essential element of MCS. Thus, it drives the implementation of institutionalized MCS practice among firms. Hence, this construct would be adopted to examine the relationship between planning control and firms' performance. Based on the above discussion, this study hypothesized that;

H1a: There is a relationship between planning control and firm performance.

Administrative Control and Firms' performance

An administrative control comprises design and structure, governance and policies and procedures in Malmi & Brown (2008) typology. Several types of research investigated administrative control but using its individual component such as; board composition, board independence, control, progressiveness, formalization, centralization and management innovation (Goh, 2007; Khongmalai, *et al.*, 2010; Rosenthal, 2010; Spring, 2009; Tanko, 2008). Most of the researches conducted in the area depict the degree of relationship with performance, some having significance level above 0.5 (Sabato, & Schmid, 2012).

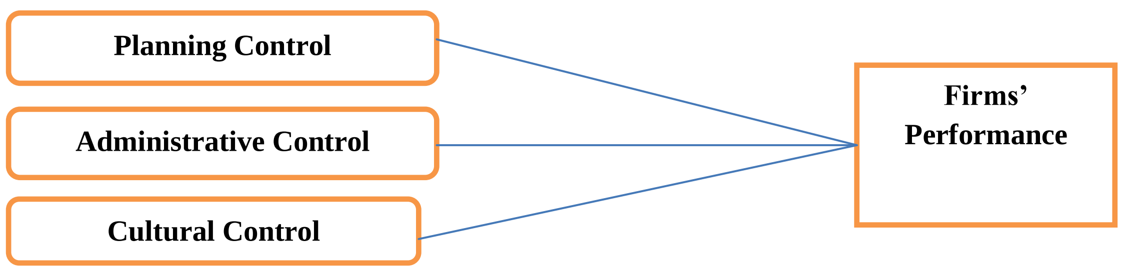
Some researchers however, attempt to increase the number of variables to determine their effect on the previous construct to improve it robustness (Ehikioya, 2009). On the institutional perspective Burns and Scapens (2000) posit that administrative practice kept in the routine would through time become part of the group beliefs and presupposition as such could enhance performance. Hence, the study would measure the variable in Nigerian context to find its relationship with firms' performance. Based on the above discussion, this study hypothesized that;

H1b: There is a relationship between administrative control and firm performance.

Cultural Control and Firms' performance

The Cultural control comprises value-based controls (Simons, 1995), clan controls (Ouchi, 1979), symbols (Schein, 1997) and they are regarded as control system when they are used to affect employee behaviour (Malmi& Brown, 2008). Hosfede (1980) introduced the following items as the measures of culture; power distance, individualism vs. collectivism, masculinity vs. femininity, uncertainty avoidance and were said to have significance relation to the employee productivity. Therefore, the variable will be operationalized using the ten (10) measures proposed by Sampe on five points Likert scale covering the two broad areas of cultural control. The variable here would investigate the extent to which the organization uses culture to control employee. As effective adoption of cultural control, help dissemination of good corporate practice in an institution. Based on the above discussion, this study hypothesized that;

H1c: There is relationship between culturalcontrol and firm performance



CONCLUSION

The research put forth the three elements of control from Malmi and Brown (2008) MCS package which include planning control, administrative control and cultural control. We suggest if these elements of controls are adopted by Nigerian firms it would trigger institutional changes as it would cease the practices of isolated treatment of control. Planning includes flow of new ideas and better ways of doing things while the administrative control makes possible the realization of these ideas through the establishment of policy and procedures as well as effective governance while cultural control maintains stability and cohesion in a firm. Therefore, investigating developing countries' firm from the extent of the application of these set of controls would unravel how their poor application hinders performance. Thus, the empirical result if conducted would suggest the need for adoption of these elements of control from Malmi and Brown viewpoint as they have the needed attributes for improving performance. In the same vein, this development would become institutionalized among other firms and would inculcate the culture of continuous improvement as a result of some isomorphic pressure that would lead to the systemic imitation of these MCS practice.

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