

Manager's background improves control system performance

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Companies adopt management control systems earlier if there is a fit with a manager's particular experience.

Previous research has shown that management control systems (MCSs), rather than impeding the innovation process, can enhance it. In their latest paper, [*Reasons for Management Control Systems Adoption: Insights from Product Development Systems Choice by Early-Stage Entrepreneurial Companies*](#), Prof. [Antonio Dávila of IESE](#) and Prof. George Foster of Stanford Graduate School of Business focus on why companies adopt MCSs in product development - an area where innovation plays a major role.

Why adopt systems?

Management control systems add value. However, this paper reveals that companies adopt MCSs for various reasons independent of the value they add.

The professors studied 69 early-stage entrepreneurial companies, mostly from the information technology and biotech fields. They identified six different reasons for adopting MCSs (i.e., contract, legitimize, manager background, need to focus, chaos and learning) and group them into two categories (i.e., external and internal).

1. *External Reasons.* A joint venture-agreement is a good example of when external forces or parties prompt a company to adopt management control systems. During a joint venture, companies have to cooperate within a contractual framework, and doing so requires a company to show greater transparency in order to monitor and better coordinate the

dealings. Another example is a multi-company agreement involving early-stage firms, when relatively new players seek legitimacy and so adopt MCSs in order to appear more credible to new customers and investors.

2. *Internal Reasons.* Sometimes companies adopt MCSs not because of any external value the systems may bring to the organization, but because of a proactive or reactive trigger. For example, when an early-stage company brings in skills that were previously non-existent, the incoming manager's background or experience often prompts the adoption of MCSs. Other times, companies have a particular need - to coordinate a geographically dispersed workforce, for example - and this acts as the trigger. Failures or unexpected problems force a company to react by implementing new systems. Or MCSs may simply evolve out of a routine process of continuous learning.

Manager's background affects adoption rate

There would appear to be no link between the different reasons for adopting systems and how long it takes to adopt them - with one exception. When the manager's background is the reason behind a system, the adoption rate is significantly quicker than when systems are taken on because of the need for credibility.

A potential explanation for the low correlation between reasons and rates of adoption would be that most of the scenarios that lead to MCS adoption happen randomly: for example, a crisis in the company or a joint-venture deal, with no reason to believe that one scenario is more likely to happen any earlier than the other. An alternative explanation could be that the sample size of 69 was too small to be statistically significant in this case.

Impact on performance

Systems adopted because of the manager's background are associated with better performance than systems adopted proactively or reactively for any other reason. This suggests that the timely adoption by a manager with the knowledge to deploy the system is a key driver for success. When external reasons drive the adoption of systems, MCSs appear to fail to bring the required structure to improve on-time performance.

Moreover, when systems are adopted as a reaction to crises and problems, the performance is worse than all other categories. The results suggest that companies may design systems without accessing the appropriate information.

Finally, companies that adopt MCSs for various reasons perform worse relative to the control group of companies that have an informal management approach, with two exceptions. These are those companies that owe their MCSs to the manager's background and those that have formalized processes over time.

However, this underperformance may not necessarily mean that having systems compares badly to the informal management approach. These companies are most likely learning in the transition period how to use the systems that they have had to adopt, because the informal processes were not enough.

Given the above findings, future research could examine if the evolution of systems in more established companies is similar to that of these early-stage firms. Also, how do companies that don't adopt MCSs as a survival tool fare?

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