THE DESIGN OF MANAGEMENT CONTROL SYSTEMS IN NON-PROFIT ORGANIZATIONS: HOW CAN TRUST AND CONTROL BE BALANCED?

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All types of organizations are confronted with the problem of obtaining cooperation among a collection of individuals or units who share only partially congruent objectives (Ouchi 1979). To coordinate individual behavior and to increase the probability that an organization’s members make decisions and take actions which are in the organization’s best interest, various complementary control mechanisms can be applied. In a broad sense, a management control system comprises all mechanisms used to influence an organization’s members’ behavior in order to improve the achievement of the organization’s primary objectives (see e.g. Anthony and Govindarajan, 2003). Following Ouchi (1979), Eisenhardt (1985) and Merchant (1998), control mechanisms can be classified into three categories: (1) behavior controls (including process specifications and rules, behavior monitoring and rewarding), (2) output controls (goal setting, performance evaluation and performance pay), and (3) personnel and social controls (selection of members/employees and development practices, codes of conduct, shared values and norms, socialization processes, mutual trust, team building activities). When designing their management control system, organizations have to decide which mixture of these mechanisms is appropriate to advance organizational effectiveness and efficiency.

It seems almost obvious that there is no universally “optimal” management control system which is appropriate for all types of organizations. In fact, contingency-based research on management control systems (for a review see Chenhall 2003) suggests that management control systems which are effective and efficient in one organizational context might be ineffective or even counter-productive when implemented in another organizational context. Typical contingency factors that determine the design and use of control systems are an organization’s technology (complexity, task programmability, uncertainty and outcome measurability), the nature of its environment, organizational structure, strategy and culture. In this paper we analyze whether and how the nonprofit character of an organization influences the appropriate design of its management control system.

As a first contribution we review the literature on the relevant contingency factors identified by contingency-based research on management control systems and analyze which of these factors are systematically influenced by the nonprofit character of an organization. The specific characteristics that distinguish nonprofit organizations are derived from a review of the existing economic (demand-side and supply-side) theories of nonprofit organizations (see e.g. Steinberg 2006). Economic theories of nonprofit organizations identify those characteristics of an organization that make the non-distribution constraint a meaningful governance mechanism. Drawing on these general characteristics, we elaborate a set of “nonprofit-specific” task attributes which (according to contingency-based research on management control systems) have an impact on the effectiveness of the analyzed management control mechanisms.

Bringing together the existing research on management control systems and the economic theories of nonprofit organizations, this paper develops a framework which classifies organizational control problems and describes the impact of the “nonprofit-specific” task attributes on the design of management control mechanisms for solving these problems. Using this framework, we derive a set of propositions on how the specific characteristics of nonprofit organizations impact the appropriate design of management control systems. In particular, it is elaborated how the different control mechanisms interact in a nonprofit context (e.g. how social and personnel control mechanisms interact with behavior and output control) and whether different control packages are applied for different types of services within one organization.
Our propositions are assessed empirically using the case study approach within the Austrian social service sector. The information for the case study has been collected from various organization documents and a series of in-depth interviews with several managers (managing directors, division managers and one of their subordinates each, thereby using multiple sources of evidence) of a large Austrian social service organization (more than 3,000 salaried and more than 4,000 voluntary members of staff).

References


