# ROLE OF MANAGEMENT CONTROL SYSTEMS IN AN ORGANIZATION FACING A STRATEGIC CHANGE: CASE OF A STATE OWNED COMMERCIAL BANK IN SRI LANKA

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## Abstract

This paper examines the role of management control systems (MCS) during a major strategic change in an organization. Prior studies have highlighted the interrelationship between MCS and strategy, although the role of MCS in designing and executing a new strategy is still unclear. Hence to address the research gap, authors have undertaken a retrospective longitudinal case study spanning over six years from 2013 to 2018, focusing on a popular state owned commercial bank in Sri Lanka. Authors have used documentation analysis, interviews with the senior management and distribution of questionnaires to the middle level management as data collection methods.

The study confirms that management control systems have a vital role during a strategic change which involves identifying the need for strategic change, formulation of the new strategy and implementation of the said strategy.

**Keywords:** Management control systems, strategic change, strategy

## 1. Introduction

Strategic changes are common in most of the industries in the world and it is a common truth for Sri Lankan context as well. Companies set their strategies to ensure realization of all key stakeholder needs such as earning a reasonable return for the shareholders, ensuring employee satisfaction and delivering customer value. A change to the set strategies will be required when it does not reap the desired outcome for the organization. Hence, when performance of the organization is below expectations, shareholders may prefer a revolutionary change in the strategy through a complete restructure of the organizational management, ownership or operational practices. When considering industries that require constant evolutions and revolutions of its strategy to adapt into situations due to factors such as globalization, competition, enhanced customer requirements, enhanced customer knowledge and further, most importantly ever improving technological factors, banking and financial services industry stands at the top. This makes the banking and finance industry a perfect sample to study relationships between strategy and relating variables during periods of strategy and structural changes.

Johnson, Scholes and Whittington (2008, p. 3) has defined above strategy as “the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations”. In situations where changes to the defined strategy is required, management control systems could be used by top managers as drivers of that change. MCSs has the ability to measure and describe critical performance variables, set limitations on tolerable strategic behavior, ratify beliefs and to persuade, deliberate and discuss about strategic uncertainties (Simons 1994) that will ultimately lead the organization to the desired position.

Management control systems were considered as methods that could only be used for implementation of intended strategies in past few decades (Simons 1991). Therefore the influence that could be done by MCS in the strategy formulation process had gone unnoticed by the strategy setters. This situation is further cemented by Simons (1990, p.127) statement “we know surprisingly little about the effects of strategy on management control systems or, alternatively, about how these systems affect strategy”. Hence he has provided a comprehensive definition for MCS as “systems which are more than devices of constraint and monitoring: management control systems are the formalized procedures and systems that use information to maintain or alter patterns in organizational activity” (Simons 1990, p.128).

Even though many researches have been conducted in order to identify the relationship between Management Control Systems and the strategy, the role of MCS in designing and executing strategy is still not clear. This unsolved matter results a research gap that need to be addressed. At the same time, the prior literature has emphasized the significance of using case study (qualitative study) to conduct an in depth analysis on the relationship between the strategy and the management control system. “Searches of top academic journals in accounting, general management and strategic management identified 45 empirical studies of which 31 are qualitative and 14 are quantitative. This divide has been chosen because the qualitative and quantitative studies contribute to the literature in substantially different ways. Given their depth, the qualitative field studies have provided insights into the nature of the levers, the use of different MCS as levers and the interaction between the levers” (Martyn, Sweeney & Curtis 2016, p. 282). Accordingly prior literature emphasizes the importance of conducting qualitative studies to identify relationships among variables and it will be followed by research paper.

Since the role of the Management Control Systems during a strategic change is not specifically discussed by prior researchers, there exists an opportunity to conduct a study to the meet the research gap. The role of MCS can be significant when it comes to a strategic change since the top management could ensure the achievement of the expected results with the use of MCS (Simons, 1990; 1991). The researchers selected a popular state owned bank in Sri Lanka to conduct the study since the organization underwent a major strategic change to meet the ever rising competition in the banking, finance and insurance Industry. The bank selected "digitization" as their new strategy and hence needed to adopt its systems accordingly. As a result of this strategic change, the bank adopted strategic initiatives such as assigning different tasks for different departments and individuals, subsequently monitoring them on a regular basis. Since the strategic change was "digitization", IT division of the bank had to play a vital role by providing all the necessary guidance to the entire branch network. Hence, the management control systems at different levels had to be in place if they were to achieve their objectives.

Therefore, this research paper presents the strategic change that took place in the bank after 2015 and how MCS contributed to the achievement of strategy. This period is compared with the pre-transformation period and identifies the MCSs' role in the new strategy. The significance of the conducted study lies around enlightening the knowledge of the community regarding unclear concepts of MCS, strategy development, strategy execution, strategy review and control. Through the research, researchers are intending to deliver a significant value to the academic community by aiding in bridging the research gap of identifying the true role and importance of MCS. Hence, identifying the role of MCS during a strategic change was selected as the main objective of this research. In addition, identifying the types of MCS used by the bank, identifying interactively and diagnostically used MCS before and after 2015 strategic change were used as secondary objectives to achieve the main objective.

This paper is structured as follows. The next section provides a synthesis of the literature and it is followed by methodology, findings and discussions, conclusion, limitation and suggestion for future research. Furthermore, the case organization will be identified as "B Bank" in following content due to confidentiality requirements.

## 2. Literature review

This section provides a thorough understanding on the concepts of management control systems (MCS), strategy and the connection between said concepts with the consideration of past literature.

### 2.1 Management Control Systems (MCS)

Chenhall (2003) describes "Management Control Systems" as arrangements that have advanced throughout past few decades from Management Accounting Systems with the inclusion of individual and clan control mechanisms. MCSs in the current business world hold "a much broader scope of information such as external information related to markets, customers, competitors as well as non-financial information related to production processes, predictive information, a broad array of decision support mechanisms, and informal personal and social controls" (Chenhall 2003, p. 129). In the past, MCS has been viewed simply as "management by exception tools" that are only used for strategy implementation (Simons 1991). In his article published in 1990, Simons showcases the true value and importance of MCS by identifying that MCSs could be aided not only in strategy implementation but also in strategy formulation. He provides a deeper definition for MCS considering the true power of these mechanisms as, "these systems (MCS) are more than devices of constraint and monitoring: management control systems are the formalized procedures and systems that use information to maintain or alter patterns in organizational activity" (Simons 1987, p.358). Therefore, the new role of MCS is now recognized for its capability to nurture flexibility and for its ability to support organizational change, strategic change, aid in management buy-outs, form double loop / generative learning inside the organization and etc. (Simons 1990; Bruining et al. 2004; Kloot 1997; Marginson 2002).

### 2.2 Strategy

On the other hand, strategy can be defined as "direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations" (Johnson & Scholes 2008, p. 3). Simons has identified different types of strategy concepts such as strategy at the business level, strategy as process, strategy as competitive position and corporate strategy (Simons 1990). He has further mentioned that the researcher should identify and distinguish above strategy concepts beforehand analyzing relationships among MCS and strategy.

### 2.3 Past studies on management control systems and strategy

Archer and Otley (1991) has considered a single MCS; Planning and Control System (PCS) to identify a relationship between strategy and MCS in their case study. Although the considered control device made it possible to successfully implement the existing strategy of the case organization; Rumenco, and aided in managing its internal processes, it did not lead managers to cover up the identified performance gap by formulating a new strategy. The opinion of Rumenco's management was to use PCS in a diagnostic manner with a low level of information flow through the hierarchical levels of the organization hence the organization did not achieve a change in their strategy (Kober et al. 2007). Further Archer and Otley's (1991) analysis demonstrates the capability of management's perceptions to make impacts on MCS's ability to support existing or new strategies (Langfield-Smith 1997).

Simons (1994) has identified the way new managers use formal MCS as a strategy implementation tool by analyzing two clusters of new managers who had to manage either a strategic turnaround situation or a strategic evolution as soon as they got appointed as new top managers. Managers of both groups have used MCS to communicate new strategies throughout the organization, for structure implementation, to surpass organizational inactivity, to ensure continuing awareness is provided through inducements and to emphasize organizational learning on strategic uncertainties. Interestingly, findings of the Simons (1994) study suggests that management control systems are extremely important as drivers of change and regardless of the industry, the way that managers use management control systems are almost equal. Studies Bruining et al. (2004), Kober et al. (2007), Slagmulder (1997), Marginson (2002) has built up from Simons (1994) in a way to provide a better understanding on the role of MCS as a lever for strategic renewal. Bruining et al. (2004) has presented his views on the relationship between MCS and strategy through a case of a management buyout situation. He suggests that beliefs and interactive control systems plays a major part in changes made to the strategic direction of an entity in situation like a MBO by formulating, implementing and modifying the existing competitive strategies. Interestingly these changes in control systems were noticed to be arise firstly due to the requirement of finding new methods to handle competitive and legal environmental changes after the MBO (Bruining et al. 2004). Findings of Marginson (2002) further confirm Bruining et al.'s (2004) suggestion by firstly showing that beliefs systems can be used as a tool to create a strategic change. Secondly the study provides that in order secure and ensure proper strategy implementation in a firm, administrative controls should be practiced across various organizational levels. Finally, it denotes that managerial interpretation and view of MCS is an important factor in determining the effects of MCS on strategic activities. Kober et al. (2003) fulfils the gap identified by Marginson (2002) by incorporating both formal and informal controls to their analysis.

Slagmulder (1997) has examined how MCS could be designed and used to align strategic investment decisions of an organization with its long term strategy. Forming novel control devices, altering the degree of formalization, making changes to the decision making panel and shifting the control stiffness are the four main modifications that are suggested by Slagmulder (1997) to be done on MCSs in order for the investment decisions to be perfectly aligned with the strategy of the organization. Furthermore, Simons (1987) suggests firms that follow different strategies such as prospectors and defenders, use control systems in various varying ways. According to Simon's study (1987) high performing prospector firms use a great amount of forecast mechanisms on control systems, regular reporting, stiff budgetary aims, careful output monitoring and lesser amount of cost controls while large firms that follow a defender strategy use control systems rather less rigorously. These findings conflicts with Miles and Snow and as well as with Porter (Langfield-Smith 1997) although they are in consistent with Kober et al. (2007), Kober et al. (2003) and Simons (1990).

The common misconception of identifying strategy formulation and strategy implementation separately which leads to a lack of understanding on the true nature of the management control is thoroughly discussed in Simons (1990). This separation causes an "artificial dichotomy" that segregates strategic planning with formulation and management control with strategy implementation process (Simons 1990, p. 128). Through his findings Simons (1990) shows that management control systems has a power to generate organizational learning and to make interactive influences on the strategy by being fully informed about current and expected strategic uncertainties. As a result of this power, MCS has the ability to manage emergent strategies and the "Process Model" aids in elaborating the selection of certain MCSs to be interactively used in day to day business activities (Simons 1990). According to the Process Model (Simons 1990), intended business strategies will create various strategic uncertainties which will get identified and monitored by the top management. In order to effectively monitor these strategic uncertainties top managers should decide certain aspects of MCSs to be used interactively while to use other aspects as programs by giving lower amount of attention to them. Management controls become interactive when mangers use planning and control procedures to actively observe and interfere in ongoing activities of subordinates while programmed controls depend heavily on specialists in preparing and interpreting information (Simons 1990, p. 136). Use of these interactive management controls to monitor the strategic uncertainties that managers believes to be critical in achieving organizational goals will ultimately send signals to all the organizational participants on what type of activities should be carefully monitored and where should the new ideas proposed and tested. The signals will activate organizational learning (Kloot 1997) in one hand and in the other hand, debates and dialogues that surrounds the organization will make new emergent strategies and tactics to arise overtime (Simons 1990, p. 137). Therefore according to Simons (1990, 1991, 1994) management control process that has been identified solely as a tool for implementation of strategies, can be instrumental in allowing the organization to learn and adapt overtime via the use of interactive control systems.

Matsuo and Matsuo (2017) has presented the role of MCS in a team environment as "teams" provide the basic level of learning which will collectively serve as the core foundation for a strong organization. It has been observed that the interactive use of MCS could encouraging innovation and product development through positively influencing on critical team reflection, while diagnostic MCS failed to achieve the above results. Further the relevance of MCS in the current turbulent business world in which organizations have to face countless uncertainties is discussed by Eldridge, Iwaarden, Wiele and Roger (2013) in the form of enablers and controllers classification. Through the case study conducted in a European high technology startup organization, authors have identified that observed diagnostic and boundary MCS acts as controllers while interactive and belief systems perform their role as enablers during the times of environmental uncertainties. Similarly, Kimura and Mourdoukoutas (2000, pp. 45) conclude their article by suggesting that the role of "beliefs systems should be used to define a corporation's character and mission and to set guidelines both for performance targets and for acceptable employee behavior in pursuing such targets. Further the interactive system should be used to adjust the organization guidelines to changing market conditions, while the diagnostic and the boundary systems should be used to set standards for improving efficiency and creativity".

Henri (2006) provides a different view on MCS based on a resource based perspective study on interactive and diagnostic application of performance measurement system and organizational capabilities. He has brought forward the necessity of MCS to be aligned with organizational capabilities if managers require MCSs to be effective and consistent with strategic choices of the organization. Hence author suggests that a relationship between capabilities and MCS should be identified rather than concentrating on the relationship between MCS and strategic choice

With the analysis of above literature, it could be understood that though many researches have been conducted in order to identify the true role of MCS under various circumstances, there exists a research gap to identify the role of MCS during a strategic change in the current turbulent business world as the subject has not been specifically addressed by scholars.

## 3. Methodology

This section discusses the research approach, data collection methods, operationalization that was used by the authors to arrive at research findings.

### 3.1 Research approach

Qualitative research approach was used as the methodology to conduct the study with the use of B Bank as its unit of analysis. To investigate the role of MCS over time, authors adapted case study approach due to method's ability to allow researchers to deeply observe the connections between MCS and strategy rather than simply aiming at identifying a fit between MCS and other related variables (Yin 2003). Furthermore, Langfield-Smith (1997) has identified that usually contingency approached studies consider matters regarding strategy implementation (Simons 1987; 1991), while practices in strategy formulation and change is the concentration of case study approached studies (Simons 1990, Kober et al. 2003; 2007, Archer & Otley 1991). These facts provide researchers with a valid reasoning for their approach in using case study method to identify the role of MCS in an organization facing a strategic change.

### 3.2 Case organization

The selected organization under analysis is a premier licensed state owned commercial bank in Sri Lanka. It is managed by a set of well experienced and highly recognized set of personal and currently holds the highest position in network of branches and second highest position when it comes to the asset base. Currently B Bank offers personal, commercial and corporate banking services, treasury services, development banking and foreign remittance services to its vast amount of clients.

Since its inception B Bank has been concentrating on its product portfolio with a product centric strategy until it observed the requirement to alter the outdated strategy in 2014. Hence B Bank underwent a major strategic change that had impacts upon all layers of the organizational structure as well as the image of the organization in the beginning of 2015. The novel strategy was customer centric and focused upon realizing ever changing customer demands in a digital era. Introduced new strategy expected to grab the attention of the sophisticated and technologically sound younger generation.

### 3.3 Data collection

While the study covers six year time period around the strategic change of B Bank, we have separated that time horizon as follows for the ease of analysis.

- Pre- transformation period (2013-2014)
- Transformation period (2015-2018)

These two time periods were identified based on the documentation review and the interviews done with the senior management. Pre-formation period represents the time period before implementing the new strategy while the transformation period is where B Bank underwent the strategic change with a significant modification done in the product portfolio and the organization's strategic direction.

Data was collected through documentation reviews, interviews with senior managers and distributing questionnaires to senior level and middle level managers. The study commenced with a review of documentation including annual reports, internal circulars, Central Bank policy statements and newspaper articles which aided in establishing a basic understanding of key aspects of the organization. Review of documentation and prior literature was used as the base in constructing interview questions. Documentation review was more supportive in identifying the critical areas and concerns that needed to be clarified with the management in interviews. Followed by documentation reviews, semi-structured interviews were conducted with three senior management personnel: Chief Manager of Department of Strategic Development; Chief Manager of the Department of Finance and Management Accounting and Manager of Department of Digitalization. Interviews were intended to gather data on the strategy and strategic change of the organization. They were held for approximately two hour duration and extensive notes were taken down from the interviewer's party. Through these interviews, a wide understanding was obtained on the overall strategic change of B Bank and the reasons that lead the organization towards a strategic change. The primary source of information which was used to examine research questions was the interviews. Then a questionnaire was developed to find the opinions of senior and middle level managers on MCS that were used inside B Bank. This was adopted from Kober et al. (2007) and developed using the opinions of senior managers gained through interviews. Modifications were done according to the organization's protocols. Questionnaire was distributed among 12 senior and middle managers who were involved in the digitalization process from the beginning out of which 10 management personals responded.

This was designed to obtain information of B Bank for each of the two time periods relating to strategy (organizational type) and the constituents of the MCS. Characteristics relating to Miles and Snow's (1978) strategic typologies under which four different strategy types are identified, namely; prospector, defender, analyzer and reactor were included in the questionnaire. This was for the respondent to identify the strategic perspective of the organization's top management for stated two time periods from their own point of view. For the purpose of achieving a better understanding of the MCS, the questionnaire integrated 27 items on different control system features used in B Bank. These items were adopted from the tools used by Miller and Friesen (1982) and Simons (1987). Furthermore, characteristics of formal and informal management control systems were included in the questionnaire in the manner of a five-point likert scale ranging from 1 to 5; 1 being "never/ seldom used" and 5 representing "always used" . Through questionnaire responses, we were able to obtain a verification regarding the changes that the top management has mentioned during their interviews in relation to strategy and MCS. Finally data triangulation was used to cross check and analyze the reliability and validity of information gathered from different sources. This involved comparison of information obtained from documentation review, interviews and questionnaire to ensure the reliability of collected information. Validity of data was established as conclusions gained from each data collection methods were similar (Modell, 2005,p. 233).

### 3.4 Conceptual diagram

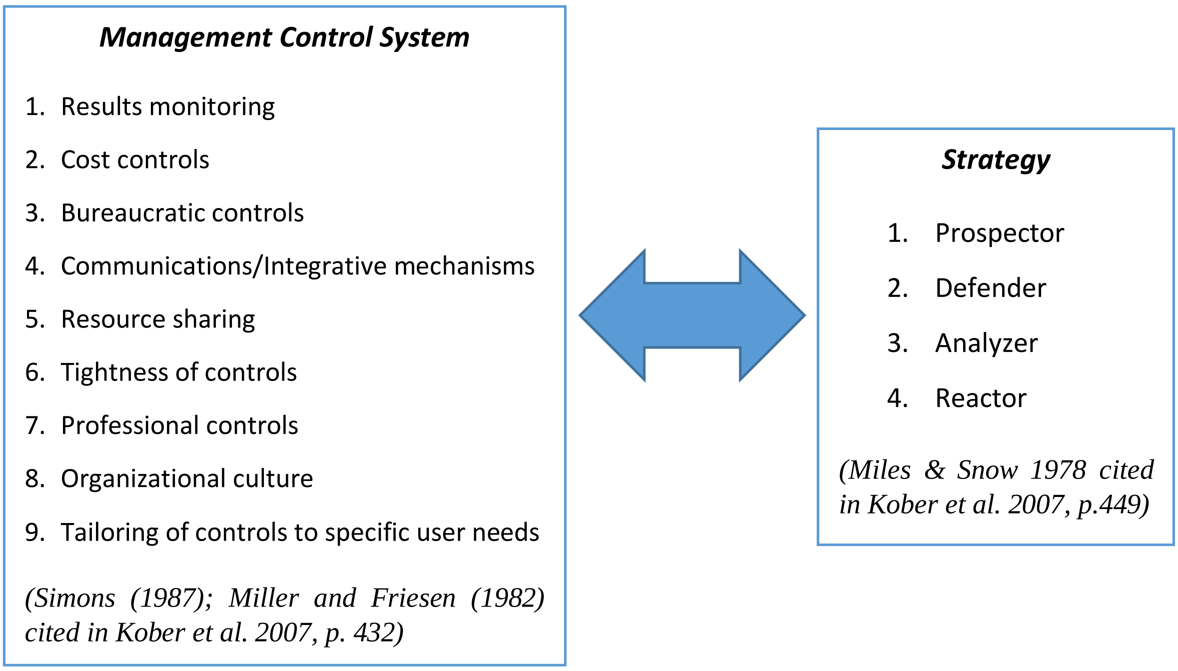


*Figure 1: Relationship between MCS and strategy*
Source: Author developed

### 3.5 Operationalization

*Strategy types (Miles & Snow 1978 cited in Kober et al. 2007, p.449)*

Miles and Snow (1978) strategy typology concept proposes four different types of strategies based on behavior of the organization. This strategic typology was used in our study for the purpose of identification of strategy due to several causes. It is the only technique "that characterizes an organization as a complete system, especially its strategic orientation" (Snow and Hrebiniak, 1980, p. 318) and it was frequently referred in prior studies.

- ***Prospector* -** Is a highly innovative firm that is constantly seeking out new markets and new opportunities and is oriented toward growth and risk taking
- ***Defender* -** Rather than seeking new growth opportunities and innovation, an organization that follows a defender strategy concentrates on protecting its current markets, maintaining stable growth, and serving its current customers.
- ***Analyzer* -** An organization that follows an analyzer strategy both maintains market share and seeks to be innovative, although usually not as innovative as an organization that uses a prospector strategy.
- ***Reactor* -** According to Miles and Snow, an organization that follows a reactor strategy has no consistent strategic approach; it drifts with environmental events, reacting to but failing to anticipate or influence those events

*MCS groupings (Simons (1987); Miller and Friesen (1982) cited in Kober et al. 2007, p. 432)*

MCS tools developed by Simons (1987) and Miller and Friesen (1982) were only focused on formal accounting controls. Hence further tools of MCS were included in Kober et al. (2007) that aided authors to measure the strength of cultural and professional control related MCS at the case organization. In order to recognize and measure the types of MCSs used in B Bank and the significance researchers used following MCS groupings;

- ***Results monitoring**:* These controls focus on outputs. Pre-defined standards for outputs are set and performance is measured against these standards
- ***Cost controls**:* These refer to the financial measures used to ensure the efficient and effective execution of operations
- ***Bureaucratic controls**:* These involve the monitoring of subordinates, the setting of standard operating procedures and rules, and establishing lines of authority within the organizational hierarchy
- ***Communications/integrative mechanisms**:* These refer to the horizontal and vertical communications that can be either formal or informal

- ***Resource sharing:*** These refer to the control resulting from the working relationships with other divisions/sections
- ***Tightness of controls:*** These refer to the level of monitoring exerted over operations
- ***Professional controls:*** These refer to the values, judgment, and ethics internalized by members of the same profession
- ***Organizational culture:*** These refer to informal social structures that support the other control mechanisms in the organization
- ***Tailoring of controls to specific user needs:*** These refer to the presentation and information content tailored to meet division/section requirements

## 4. Findings and discussion

Findings of the research, as given below, were identified to achieve research objective of understanding the role played by management control systems in a strategic change of an organization. Hence, the management control systems were identified prior to and during the implementation of the digitalization process of B Bank.

### 4.1 Digitalization process

B Bank, as introduced before, underwent a major change in their strategy in the year 2015. The bank digitized its entire business model in order to shift from a 55 year old traditional model, to a modern, digital era. This has put the organization in the spot light as a trend setter in Sri Lanka, where, the people, especially outside Colombo and major cities, are yet to adapt to technology.

The digitalization strategy of the bank is a plan of 5 years, commencing from the year 2015. As at today, the implementation process is partially completed. Bank has managed to change the outlook of all the branches, with a more colorful and attractive appearance, along with the advanced technological facilities installed. Moreover, the advanced technology enables customers to fulfill all their requirements through technological infrastructure. For example, the customers can create new bank accounts without the support of an employee, obtain loans and deposit money in fixed deposits through the newly introduced application etc.

Under the leadership of the Chairman and General Manager, B Bank has continued to maintain the focus and exceed the growth targets while achieving the respective targets in the implementation process of the digitalization strategy. To achieve these targets organization was restructured and shaped in a way to place itself in a more competitive position. Following table sums up the questionnaire responses of the strategy behavior and its changes prior and post to the implementation of the new strategy.

**Table 1: Questionnaire Responses for strategy**

| Strategy type | Pre-transformation Period (2013-2014) | Transformation Period (2015-2018) |
|---|---|---|
| Prospector | 0% | 80% |
| Defender | 50% | 0% |
| Analyzer | 30% | 20% |
| Reactor | 20% | 0% |

- **Strategy implemented in the pre-transformation period**

As per the questionnaire, B Bank had a defender strategy implemented prior to the major transformation done in the year 2015 with a majority of 50% responses. 30% responses were towards the analyzer strategy, probably due to the similarities between defender and analyzer strategies in following other innovators although this finding contradicts with Kober (2007) and Samudrage (2007) of which the considered case organization depicted a reactor strategy prior the formulation of the new strategy. Moreover, it was brought to our knowledge through the interviews that the bank did not intend to seek new growth opportunities and innovations, but rather, followed a strategy to concentrate on protecting the current customers while maintaining a steady growth. This was denoted by the following comment given by the manager.

> "The biggest problem we had was our poor IT systems. While our competitors utilized more and more of IT facilities we were still using our old systems"

This has resulted in the bank's competitors taking over the market share gradually by introducing more customer focused products and innovations. Even though the bank undertook measures to follow the innovative strategies of other competitors, the competitive advantage was lost due to the delay in execution. This became a major concern when the bank identified that it is absolutely necessary to undergo a major change in the strategy in order to regain the customer faith and the market share the bank has lost over years. The following comment by the management emphasizes this point.

> "We had to go for a radical change in order to retain our customers and not lose our market share in the market."

Since the defender strategy has the above mentioned characteristics, for instance, maintenance of limited line of products (no innovative products), often a 'second-in; rather than a 'first-in' with new products and services, tries to maintain the current market etc. it is apparent that the bank has followed a defender strategy prior to the digitalization strategy implementation.

- **Strategy implemented during the transformation period**

Based on the questionnaire a dominant 80% of the responses are directed towards a prospector strategy. Fortifying the evidence obtained from the questionnaire, the interviewees agreed that the bank adopted in a more proactive approach in introducing new products and services to the market.

It was brought to our knowledge during the interviews that due to the drawbacks of the defender strategy, B Bank moved towards a prospector strategy to take the initiative in the market. The main drawback highlighted by the interviewees were that the bank was always behind the competitors when it comes to innovations and adaptation to the evolving technology. Hence, the bank has changed the perspective to lead the market and the digitalization strategy was introduced. B Bank has taken the initiative in the Sri Lankan market to completely digitalize the banking process in order to add value to the customers. This is a risky initiative as the country has not yet developed, technologically, to welcome such a change in their routine banking processes. Hence, the bank has taken up the challenge in order to push their product to the customers to make them understand the convenience and value addition they have introduced into the banking process. These points were identified from the comments provided by the interviewees as given below.

> "We understood the risk of introducing a digitalization process since most of our customers in rural areas are not yet updated with technology. Most of them still request for a pass book for their accounts. So we changed our strategic perspective for a more risk seeking and exploring strategy in order to be a leader in the market and not a follower."

Hence based on above information obtained from the questionnaire and interviews, it is apparent that the bank has adopted a strategy which has similar characteristics of the prospector strategy, for instance; B Bank is highly innovative and seeking out new market, welcoming risk and making risk an opportunity to succeed in the market. Further interestingly, these findings are in line with Samudrage (2007) but they vary from Kober (2007).

### 4.2 Use of management control systems

Following table emphasises the questionnaire responses on the changes made to management control systems used in B Bank prior and during the strategic transformation period.

**Table 2: Questionnaire response level for MCS types as a percentage of total responses**

| Period considered / MCS Type | Pre-transformation Period (2013-2014) | | | | | Transformation Period (2015-2018) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Response Level** | **1** | **2** | **3** | **4** | **5** | **1** | **2** | **3** | **4** | **5** |
| Communication mechanisms | 6 | 26 | 52 | 14 | 2 | 0 | 6 | 18 | 52 | 24 |
| Result monitoring | 0 | 28 | 42 | 22 | 8 | 0 | 0 | 18 | 34 | 48 |
| Bureaucratic controls | 25 | 25 | 50 | 0 | 0 | 5 | 5 | 25 | 60 | 5 |
| Cost control | 0 | 10 | 50 | 40 | 0 | 0 | 0 | 0 | 30 | 70 |
| Professional controls | 55 | 25 | 20 | 0 | 0 | 10 | 55 | 25 | 5 | 5 |
| Tightness of control | 0 | 0 | 35 | 55 | 10 | 0 | 0 | 7.5 | 60 | 32.5 |
| Resource sharing | 30 | 30 | 40 | 0 | 0 | 0 | 0 | 10 | 40 | 50 |
| Tailoring of control | 0 | 15 | 45 | 30 | 10 | 0 | 0 | 10 | 50 | 40 |
| Organizational culture | 0 | 10 | 40 | 50 | 0 | 0 | 10 | 30 | 60 | 0 |

It was identified in the interviews that in order to implement above mentioned digitalization strategy, the bank has made use of the management control systems. These management control systems were used interactively as well as diagnostically. Newly introduced as well as amended control systems were identified in the process of the strategic change. Some of the management control systems have fortified in the strategy formulation process as opposed to the traditional use in the strategy implementation process. Identified below are the types and features of management control systems, based on the questionnaire and interviews, which were in place prior to and during the introduction of the digitalization strategy.

Communication mechanisms are a management control system which has been productively utilized during the strategic change. Prior to the change, as interviewees emphasized, communication mechanism were used to pass information on business updates, to discuss performance evaluation results etc. A more vertical communication methodology has been used where the information mostly flows from top to bottom. Hence, the communication mechanism were used more diagnostically in the period prior to the strategic change. Once the digitalization strategy was implemented, the importance of communication was highlighted. Since the strategy is a new experience for all the staff, including the decision makers, feedback from the customers and the users were important to correct the practical issues that arise in the implementation. This requires the ground level information to obtain a more realistic feedback on the implemented strategy. As a result, the employers as well as the employees frequently conduct meetings in order to measure and analyze the progress. This is in line with Simons (1994), where it is stated that when a new strategy is implemented the managers use formal measurement and a feedback system to communicate their agendas to the superiors. In addition to the information obtained by the customers, the employees provide a vital feedback to the decision makers. Whatever the strategy the management agree upon has to be implemented through the employees. Hence, some practical matters that the management overlook, with regard to the work that has to be performed by the employees, has to be communicated back to the directors. Hence, in the frequent meetings conducted, important information flows in both direction and all the team members will interactively discuss the matters in strategy changes. The above information provided by the top management is fortified by the questionnaire conducted where out of the ten personnel responded 84% voted below the 'half the time' category for prior to change of strategy while 76% voted above the 'half the time' category for after the strategy change period. This demonstrates a clear improvement in communication mechanisms usage although these findings regarding communication mechanisms contradicts with Kober et al. (2007).

Results monitoring focuses on the output. Standards are set in order to identify any variances in the performance. This mechanism gives the employees a target to achieve and a direction to move in. Based on the interviews it was identified that prior to the strategy change, the bank used results monitoring mechanism diagnostically in order to achieve the respective targets for the year. These targets were common and followed by most of the banks in the industry. Some of the examples are, number of new accounts opened, number of fixed deposits obtained etc. After the strategic change, the bank still uses results monitoring to measure the achievement of targets set to the employees. However, these mechanisms were used more interactively than diagnostically, where the top management is involved in evaluating the effectiveness of the standards set against the new strategy. Any deviation from the expectations are highly evaluated to shape the control systems to achieve the set strategy. The bank conducts training programmes to the staff, in order to ensure that they are up to date with the developments in the digital world. This will facilitate the employees to achieve the set targets since the bank has not recruited staff for the newly introduced Digitalization Department. Therefore the training programmes are an integral part of the results monitoring mechanism. Based on the results of the questionnaire, more than 70% of the results prior to the strategy change indicate that the use of results monitoring control mechanisms are on or below 'half the time' as opposed to a more than 90% result after the strategy change. This indicates that the use of results monitoring has changed along with the strategy change as given in above and the finding is in line with Simons (1990) and Kober et al. (2007).

Bureaucratic controls are diagnostically used both prior and after the strategy implementation in the year 2015. B Bank has lines of authority within the organization hierarchy where a more top down approach is used in implementing strategies. A new department was formed, namely, Digitalization Department, which overlooks the implementation of the strategy under the leadership of the head of the department. The head directly reports to the chief executive officer and communicates the top level decisions to the staff in the department to achieve the overall objective. These structural changes were made to cater the strategic requirement and authorities and responsibilities were given to staff respectively. Based on the results of the questionnaire, it was evident that the use of the internal control function and other formal bureaucratic control methods have increased as well. The responses have shifted from a majority in the ‘half the time’ category to ‘frequently’ category after the strategy implementation. A similar finding was identified in Simons (1990) as well as in Kober et al. (2007) where an increase in bureaucratic control use was evident in the post-transformation period of strategy.

Cost controls are implemented in different ways and the most common being the budgets. It was brought to our attention that prior to the strategic change, the bank had annual budgets the departments had to achieve. Management had a more cost cutting view in order to achieve the planned financial targets set for each year. This is fortified in Simons (1990) who has highlighted that companies with prospector strategy uses budgets with a focus on strategy and tactics. Further Kober et al. (2007) has mentioned that cost control mechanism is one of the mostly used control systems in pre-transformation and post-transformation as well. Cost control mechanism are still in use after the implementation of the digitalization strategy. However, having considered the importance of the push strategy to spread awareness to the people who are yet towards more traditional means and ways, the bank has loosened up the financial limitations. This is in light of the uncertainties faced in the implementation of an innovative and a trend-setting strategy. The performances are measured monthly, to ensure that the expenditure is in line with the monthly budgets of the departments. If any deviations were identified, the operations division analyses the details and provide a report to the top management to facilitate their decision making process. Therefore budgets are diagnostically used currently and prior to the strategic change. Results of the questionnaire demonstrate a similar view to that information obtained by the bank. The cost control mechanism had been used by the bank frequently even prior to the strategy change. Even though there is an increase in the use according to the results this control mechanism has played an important role prior and after the strategy implementation.

Professional controls refer to values and methodologies followed by the people with the same professional background. In the case of B Bank, the top management mentioned in the interviews that professional controls were not identified either prior to, or after the implementation strategy. It was noted that professional controls are rarely identifiable and evident in the local context. The results of the questionnaire demonstrate the above view of the top management with regard to professional controls. Only 10% of the responses indicate the use of professional controls after the strategy change which demonstrate that such control was not used in the strategy implementation. This is opposite to the findings in Kober et al. (2007) where it was stated that professional controls are one of the mechanisms that was mostly used prior to transformation and after the transformation of strategy.

Tightness of controls is the level of monitoring exercised over operations. Comparatively, tightness of controls were used with higher prominence during the strategic implementation as provided in the interview and agrees with the findings of Kober et al. (2007). This is mainly facilitated by the fact that each step of the strategic implementation process is required to be performed as expected to evaluate the effectiveness of the strategy. Therefore, the bank, still at the implementation stage, is monitoring the operations carefully. The tightness of controls were increased after the 2015, indicating that a higher monitoring is required in the strategic changes. The questionnaire results demonstrates that the tightness of controls existed both prior and after the strategic change. There is a marginal increase after the strategy implementation, however, it can be concluded that the tightness of controls was a mechanism are frequently used by management under both strategies.

Resource sharing demonstrates the controls resulting from the inter relationships made within departments and sections. It was brought to our attention that prior to the strategic change B Bank did not had critical resource sharing mechanisms used in the defender strategy. Rather, the resources were separately allocated and each of the departments were performing their respective role independently to achieve the overall objective. However, after the strategic change, more resource sharing control mechanisms have been introduced. For example it was mentioned by an interviewee that; "the Digitalization and Information Technology (IT) Department work in line to match the technical side with the business side. There two newly introduced department works interdependently, sharing their knowledge and expertise in order to achieve the strategy. The Digitalization Department, which handles the business side of the digitalization process provides the information of the customer requirements to the IT Department which works with the outsourced IT companies to fulfill the requirements. Hence, these two companies have to work together in order for the digitalization strategy to succeed. The information collected from the interview as mentioned above are fortified by the results of the questionnaire. 100% of the responses indicated that the resource sharing was on or below 'half the time' prior to the strategic change, while only 10% indicated the same during the strategy implementation. Therefore it can be concluded that resource sharing has been introduced by the management to facilitate the strategy change although according to Kober et al (2007) resource sharing is the least used MCS tool for the strategy implementation of PathCenter; the case company of their research.

Tailoring of control mechanism is used to fulfill specific requirements of each department or section, through amending controls. A change in strategy demonstrates a higher need for tailoring of controls as the top level managers too are new to the experience. Hence, the trial and error method is used in order to identify the optimum use of management control systems. It was identified in the interview that controls used by the management initially, were amended throughout the implementation process based on the new feedback received. However prior to 2015, no major changes as such were identified since the strategy implemented was at a maturity level. Therefore it can be identified that the interactive use of tailoring of controls was highly evident during a strategic change. 40% responses indicated that the controls were tailored frequently or above prior to the strategic change while 90% responded they were tailored frequently or above after the strategy implementation. Therefore it can be concluded that the results have been tailored to fit the newly implemented strategy of the bank although according to Kober et al. (2007) this control mechanism was given the same amount of importance and usage prior and during the transformation period.

Organizational culture is an interactive control system which it vital for a major strategic change. Strategic changes occur as a result of major trigging points such as loss of market, changes in the top management etc. Hence, it will directly change the organizational culture based on the influence of the top management. The organization culture of B Bank during this strategic change was considered quite evident by the interviewees. Even though there were resistance in some of the areas at the inception of the strategy, the bank has managed to make employees understand the importance and the benefits of the introduced strategy. The culture has since changed to a more modernized culture as opposed to the traditional means and ways B Bank has been followed in their history of over 50 years. Appearance wise changes too has been made in branches which brings more energy to the employees. An interviewee mentioned; "the organizational culture has changed significantly in the strategic change towards digitalization. The tone set at the top are passed down to employees to be updated on the technical knowledge while ensuring the task they are assigned for are complete." The above information obtained from the interviews are not quite reflective from the questionnaire results. Majority of the responses were indicated that the employees had a strong sense of beliefs in the bank. However, the change in the culture was not reflective on the questionnaire, which is in line with Kober et al. (2007), where it was mentioned that organizational culture was one of the mostly used mechanisms prior to strategic transformation. A marginal increment of the sense of shared values can be evident and it can be concluded that there has been a change in the organization culture to facilitate the strategy change.

## 4.3 Role of management control systems

### 4.3.1 Prior to strategic transformation

By interviewing the manager of the Digitalization Department of B Bank, the researcher revealed that up to 2015 prior to implementing the digitalization strategy, B Bank followed a strategy which is focused on maintaining the current customer base while fulfilling the limited requirements of the customers without being much sensitive for the ongoing developments in the banking industry such as internet banking, mobile apps etc. and B Bank was limited only for some internally developed packages such as SMS banking but they were not parallel with the technology level in the financial market. Further the interviewee mentioned that

> "As a result of that B Bank had its majority of the customer base complied with elderly population and with less young customers since there were not sufficient movements with the new technological trends to attract the new generation towards the bank and therefore during the period the bank did not experience the required growth alike the other institutes in the banking industry and the issue of not having customers from the young generation was created an uncertainty since after the present generation the bank was not in a position to have a sufficient potential customer base to continue the operations into the future."

By interviewing the Chief Manager of the Department of Strategic Development, researchers revealed that as a result of the inability to offer the innovative banking facilities which are demanded by its customers, B Bank had gradually lost its market share over the time as a result of other competitive financial institutes provided better service compared to them by using innovative technologies and the top management of the B Bank was able to identify the indications of its uncertainty into the future mainly through conducting benchmarking, competitor analysis and industry analysis.

The interviewee mentioned that benchmarking helped B Bank to compare its banking operations against the operations of its competitive banks and other financial institutes and they identified how the competitors were performing their operations to attract and maintain their customer base. Competitor analysis helped B Bank to identify the different strategies used by the competitors and how those strategies have helped them to keep a step ahead when it is compared with itself. Further the interviewer mentioned that by doing an industry analysis, organization realized where the banking industry is at present and the innovative services which customers are offered by the banking industry as a whole and they had identified that they were far below the required level of technology when it is compared with the competitors and other financial institutions in the banking industry.

In addition to that Chief Manager of the Department of Strategic Development mentioned that, prior to implementing the digitalization strategy they had established only few Key Performance Indicators (KPIs) to measure the performance of B Bank and those KPIs were also given the indication that they do not perform well since the number of new accounts and fixed deposits created and loans obtained etc. were gradually decreasing over the period. The interviewee stated that, “these information provided by the management control systems highlighted that we were in an uncertainty about our future operations and we determined that we need to go through a strategic change to continue our operations into the future by overcoming these weaknesses.” Cost control KPI’s were set along with in order to ensure that the products introduced are managed within the budget. This was evident by the questionnaire results where control mechanisms were identified as one of the most used management control systems cost. Also the results monitoring controls were placed in line with cost control mechanism in order to ensure that the company is moving towards the right direction.

The interviewee mentioned that therefore a wide research had conducted by an external consultant, in order to identify the potential improvements and current lacks in innovations of the bank. After conducting the research external consultants have given their recommendations for the management of the B Bank and to the department responsible for Information Technology development requirements in B Bank. In 2013-2014 they officially identified the requirement for strategic change, mainly in the areas of technology through this external research.

The analysis of the role Management Control System played in B Bank during the pre-transformation stage and its indication of the necessity of moving for a new strategy is also consistent with Simons (1990, 1991).

### 4.3.2 During the strategic transformation period

As per the Chief Manager of the Department of Strategic Development, after realizing that B Bank is underperforming due to lack of new technology and innovative banking products, bank decided to go for a digitalization strategy in order to compete with other institutes in the banking industry. The interviewee mentioned that in formulating the strategy B Bank has given the priority for findings of the external consultant after conducting his wide research and the weaknesses and areas need to be developed identified by B Bank itself from its existing management control systems like benchmarking, competitor analysis, industry analysis and Key Performance Indicators. However, the organization culture was given incentives to adapt to the strategic change initially. The employees were given training on information technology knowledge, the products introduced by B Bank and how to work with customers to provide them with the best service. Hence, the organization culture was tuned to the new strategy in order to take out the traditional mentality of the staff to proactively lead the market. This information gathered from interviews are in line with the questionnaire results.

Manager of the Digitalization Department mentioned that when formulating the strategy prominence was given to innovative banking services need to be provided to the customers of B Bank in order to overcome the gap between levels of service provide in the banking industry and the levels of service provide by B Bank to its customers. In order to facilitate the strategy formulation B Bank incorporated a new department known as "Digitalization Department". Further the interviewee mentioned that the Management of the B Bank selected internal employees who have the required knowledge and expertise in technology for the Digitalization Department based on the information available about those employees especially by using the performance evaluation information included in the bank database and based on the management experience from working together with them and thereafter B Bank had given them a broad understanding about the new strategic change. It was therefore evident that resource sharing mechanisms have played a role in the strategic implementation. The information obtained from different departments were shared among themselves in order to connect the business knowledge and the information technology knowledge to deliver the best output for the customers.

Researcher revealed from the Manager of the Digitalization Department that to fulfil the need of how the strategy need to be formulated, Digitalization Department has obtained the ideas of the B Bank staff from the top level to bottom level and in doing that the management control systems of the B Bank were useful to gather the required information through its communication mechanism. The interviewee mentioned that the main reason for gathering information from all the employees in the bank was to eliminate the difficulties that they were experiencing in fulfilling the needs of the customers and satisfying them and ensure their assistance is received for the strategy formulation.

During the interview with the Chief Manager of the Strategic Development he mentioned that after considering the external and internal information obtained relevant to the strategy formulation, B Bank has decided to introduce 7 new products to its customers. They are Express banking- WIS paperless, Retail Internet banking (by using website), Retail mobile banking (by using mobile app), Corporate internet banking, Corporate mobile banking, Retail loan originating system and Corporate loan originating system and these products were proposed with the intention of facilitating the banking activities of their customers with no or less paper workers and to deal with the bank without the physical presence of the customers by using the latest technology in the global banking industry. In addition to that manager of the Digitalization Department mentioned that together with the introduction of new products, B Bank developed their new website to match with the market trends and they introduced a data ware house facility to scan and store the documents in a system and bank staff can obtain the required information by logging into that system for providing an effective service to the customers.

Chief Manager of the Strategic Development mentioned that thereafter by involving the top management of B Bank together with Chief Executive Officer, done a cost benefit analysis and return on investment evaluation on formulating and implementing the new digitalization strategy and ensured the strategy would be beneficial in the long run. The interviewee expressed that subsequently by using the internal communication mechanisms like e-mails, circulars, awareness programs and advertisements bank communicated the formulated strategy which is going to be implemented to their staff and motivated them to get their maximum contribution for the successful implementation of the strategy.

The manager of the Digitalization Department mentioned during the interview that the digitalization strategy of B Bank commenced as a 5 year plan in 2015 and to get the technology assistance for implementing the strategy the bank had to obtain a greater assistance from Information Technology Department. As a result of that Digitalization Department and Information Technology Department became inter-related departments and management control systems were introduced to ensure smooth functioning between these two departments. For obtaining the advance technological services for developing the 7 new products, B Bank had to outsource certain information technology functions for external parties. The Finance manager of B Bank mentioned to the researcher that in selecting the IT service providers for the above purpose, management of B Bank critically evaluated information technology service providers in the industry, by considering cost and benefit of outsourcing the functions, the quality, reliability and the capabilities of the service providers and past records about their services etc.

Chief Manager of the Department of Strategic Development emphasized that B Bank always ensured that proper management controls are established over each banking product to ensure that they deliver the expected outcome to its customers by establishing a product wise project and technical support team and separate systems for each product to take backups and take corrective actions in any system failure and also to do the product modifications according to the requirements identified by Digitalization Department. Chief Manager further revealed that B Bank implemented advertising and promotion campaigns to communicate the strategy implementation for the external parties including the existing customers and instructions were given to the staff especially at branches to assist and guide the customers to move with their newly introduced technologies. The interviewee expressed that

> "When resistance were arising from the customers who used for traditional banking transactions especially in rural areas with lack of involvement in technology, management of B Bank identified the resistance and take necessary actions to improve the financial inclusiveness of those customers to make them familiar with new technology and even bank carry out awareness programs for the public, by appointing a directive officer."

Interviewee highlighted that along with the implementation of the digitalization strategy, B Bank allocated the strategic initiatives department wisely to the internal employees and guided them to do the necessaries to implement the strategy and sort out the problem arise on daily basis. In decision making B Bank ensured that authority for the final decision making are made by the top level management and responsibility has delegated to the lower level management.

Further the interviewee mentioned that B Bank is doing performance measurements frequently in both quantitative and qualitative methods and identified the deviations compared to the expected outcomes. Thereafter management of B Bank obtained the suggestions using two way communications and conducted collaborative decision making by using management control systems about the identified deviations and implemented the agreed decisions to ensure the successful implementation of the strategy.

Management Control Systems have the ability to measure and describe critical performance variables, set limitations on tolerable strategic behavior, ratify beliefs and to persuade, deliberate and discuss about strategic uncertainty (Simons, 1994) that will ultimately lead the organization to the desired position. Hence the researcher's findings about the role of management control systems of B Bank during the strategic changing period is consistent with Simons (1990, 1991, 1994).

## 5 Conclusion

The study was conducted with the objective of identifying the role of management control systems in an organization facing strategic change and it was expected to render new knowledge to the academic community regarding the subject. The case organization B Bank underwent a major strategic change in 2015 hence the period from 2013 to 2014 was considered as pre-transformation period and period from 2015 to 2018 was considered as the transformation period for analyzing purposes. Through the study, researchers found out that the B Bank selected "digitization" as their main strategy and assigned different roles to departments and individuals to achieve their intended objectives.

Through the interviews with the Chief Managers in divisions such as Strategic Development, Finance and Digitization, researchers gathered information about the specific strategies adopted by the bank in achieving the outcomes of the strategy. Findings were then triangulated with the information in the publicly available information and ensured that they are congruent with each other. This research enabled participants to understand the possible strategies a financial institution could adopt to face the ever rising competition and be competitive in the relevant industry. Researchers were successful in analyzing the role of MCS in strategic change and realized that they played a significant role in making a strategy a success by participating in identifying the requirement of a new strategy, formulation and implementation of the new strategy.

However, there are several limitations of the study. Firstly, even though case study approach has been encouraged by researchers to identify relationships between variables, the study could be exposed to some inherent limitations of case study research approach. The study will only be considering the internal factors that has had an impact on the strategy of the organization. However, external factors do have an impact on the performance of the financial institution which will not be addressed through the study. As the study is proposed to be conducted as a retrospective study which will be analyzing past incidents of an organization, the findings might rely on participant's ability to recall those events. Further, since the strategic change is still on progress the true final outcome of the process is difficult to be measured.

Finally, the research itself creates an opportunity to the prospective researches to conduct future research on the final outcome of the strategic change process. In addition to that, the researchers could select few Management Control Systems and analyze the role of those MCS to achieve the intended strategies since the current study is an overall study. It would be interesting to conduct future research on the role of MCS and strategy considering other industries as well since the research paper considers the Banking and Finance industry for the particular study.

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