

Relationship between Leadership and Management Control Systems and its Impact on Financial Performance: A Survey of Employees in Japanese Firms

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Abstract

This study examines the relationship between leadership and management control systems (MCS) based on Simons' *Levers of Control* (LOC) and its impact on financial performance. The successful use of MCS contributes to the improved financial performance of organizations. Both MCS and leadership share the common characteristic of influencing organizational members to achieve organizational objectives. However, studies exploring the effect of leadership on the design and use of MCS are limited.

This study achieves the objective by proposing three hypotheses regarding the associations between leadership styles, LOC's four systems, strategy implementation, and their impact on financial performance. We collected data through a questionnaire survey conducted among organizational members (1043 respondents) with official positions in Japanese firms to test these hypotheses. The relationship between leadership, MCS, and financial performance was examined through a path analysis.

The findings reveal the following: 1) A strong relationship exists between the initiating structure and consideration leadership styles. 2) Each leadership style affects the LOC's four systems differently. 3) The relationships among the LOC's four systems are complex. 4) Leadership styles and the LOC's four systems differed in strategy implementation. 5) The relationship between leadership styles, the four systems, and strategy implementation affects financial performance.