

Why Management Control Systems Fail or Succeed: A Legitimacy-Based Process Explanation of Financial Performance

El Malki Said¹, Mrani Zentar Sarra²

¹Ph.D. candidate and researcher at the Faculty of Legal, Economic, and Social Sciences in Marrakech, Interdisciplinary Laboratory for Research and Studies in Organizational Management and Business Law, FSJES, Cadi Ayyad University, Marrakesh, Morocco.

ORCID: <https://orcid.org/0009-0008-9805-0108>

²Associate Professor and Researcher at the Faculty of Law, Economics, and Social Sciences in Marrakech, Interdisciplinary Laboratory for Research and Studies in Organizational Management and Corporate Law, FSJES, Cadi Ayyad University, Marrakesh, Morocco

ORCID: <https://orcid.org/0000-0002-1634-1710>

DOI: <https://doi.org/10.47772/IJRISS.2026.100400162>

Received: 10 April 2026; Accepted: 15 April 2026; Published: 30 April 2026

ABSTRACT

In increasingly complex and uncertain environments, where activities are project-based, organisations rely on management control systems (MCS) to support decision-making and improve performance. However, their effectiveness cannot be explained solely by their technical design. This study examines the role of MCS legitimacy as a key factor in reducing organisational uncertainty and improving coordination, thereby contributing to enhanced financial performance. Drawing on legitimacy theory, a conceptual model is developed, establishing a link between MCS legitimacy, uncertainty reduction, coordination and performance. The empirical analysis is based on data collected from 175 large construction firms in Morocco. Using regression and mediation analyses, the results show that the perceived legitimacy of MCS significantly reduces uncertainty and enhances coordination among organisational actors. In turn, better coordination leads to improved financial performance. The results also indicate that legitimacy influences performance indirectly through these intermediary mechanisms. This study contributes to the literature by offering a more comprehensive understanding of how management control systems operate in complex environments. It highlights the importance of legitimacy as a practical and managerial lever for improving organisational effectiveness in project management contexts.

Keywords: Management control systems; Legitimacy; Organisational uncertainty; Coordination; Financial performance

INTRODUCTION

In today's organisational environments, characterised by increasing complexity, uncertainty and institutional pressures, achieving sustainable financial performance has become a key objective, yet one that is increasingly difficult to attain. In project-oriented sectors, such as construction, these challenges are further amplified by a high degree of task interdependence, fragmented stakeholder structures and significant operational risks (Winch, 2010; Flyvbjerg, 2014). Under these conditions, organisations must not only design effective management practices, but also ensure their consistent implementation and coordination across different organisational units. Management control systems have long been regarded as key mechanisms for addressing these challenges. Traditionally conceptualised as formal tools designed to align organisational activities with strategic objectives (Simons, 1995; Malmi & Brown, 2008), MCS have evolved into complex and dynamic systems that support decision-making, facilitate learning and enable organisational adaptation (Chenhall, 2003; Bedford, 2020; Möller et al., 2023). Despite these theoretical advances, a persistent assumption remains in the literature: once implemented, management control systems are expected to function effectively and contribute

directly to organisational performance. However, this assumption is increasingly being challenged by empirical evidence. A growing body of research shows that management control systems are often used selectively, interpreted differently by various organisational actors, or even adopted symbolically without producing substantial effects on behaviour and performance (Ahrens & Chapman, 2004; Mundy, 2010; Tessier & Otley, 2012). This divergence between formal design and actual use reveals a critical limitation of existing research: the effectiveness of management control systems cannot be fully understood without taking into account the social and cognitive conditions in which these systems are implemented.

Whilst contingency theory has provided valuable insights by emphasising the alignment between the design of control systems and contextual variables (Chenhall, 2003), it remains insufficient to explain why systems of similar design produce divergent results from one organisation to another. At the same time, resource-based perspectives highlight the role of organisational capabilities, but offer only a limited explanation of how control systems are integrated into day-to-day practices. This results in a significant gap in the literature: current approaches largely explain whether management control systems influence performance, but offer only a limited understanding of how this influence is socially constructed and operationalised within organisations. In response to this limitation, this study draws on legitimacy theory as a complementary perspective. Legitimacy refers to the extent to which organisational practices are perceived as appropriate, desirable and consistent with shared norms and values (Suchman, 1995; Bitektine & Haack, 2015). When management control systems are perceived as legitimate, they are more likely to be accepted, internalised and used consistently, thereby enhancing their effectiveness. Conversely, a lack of legitimacy can generate resistance, ambiguity and coordination failures. This perspective shifts the focus from structural design to social acceptance, offering a more process-oriented understanding of the effectiveness of control systems. Building on this theoretical foundation, this study proposes a process-based framework in which the legitimacy of management control systems indirectly influences financial performance through two key organisational mechanisms: reducing uncertainty and improving coordination. In doing so, the study fills a significant gap in the literature by explaining not only whether management control systems (MCS) affect performance, but also how this effect unfolds through interdependent organisational processes.

Consequently, the central question guiding this study is as follows: *to what extent does the legitimacy of management control systems contribute to reducing organisational uncertainty and improving coordination in project-based environments, and how do these mechanisms translate into improved financial performance?*

To answer this question, the study pursues three main objectives. Firstly, it examines the relationship between the legitimacy of management control systems and organisational uncertainty. Secondly, it analyses how the reduction in uncertainty influences coordination among organisational actors. Thirdly, it studies the indirect effect of the legitimacy of management control systems on financial performance through these sequential mechanisms.

This study makes three main contributions. Firstly, it expands the literature on management control by shifting the focus from a design-oriented perspective to a process-based explanation of performance, highlighting the reduction of uncertainty as a central function of control systems. Secondly, it contributes to legitimacy theory by demonstrating that legitimacy functions as a micro-foundational basis of organisational effectiveness, shaping the internal functioning of control systems rather than remaining confined to external institutional contexts. Thirdly, it provides new empirical evidence from a project-oriented sector in an emerging economy, offering a more nuanced understanding of how organisations manage complexity and achieve performance under conditions of uncertainty.

THEORETICAL FRAMEWORK AND FORMULATION OF HYPOTHESES

Management control systems in complex and uncertain organisational contexts:

Management control systems have gradually evolved from narrowly defined technical tools into multidimensional organisational frameworks that structure decision-making, shape behaviour and enable the implementation of strategy. Early conceptualisations described management control systems primarily as

formal, information-based routines designed to ensure alignment between organisational activities and strategic objectives (Simons, 1995). Subsequent developments have broadened this view by emphasising the configurational nature of control systems, highlighting how combinations of controls (diagnostic, interactive, cultural and administrative) collectively influence organisational outcomes (Malmi & Brown, 2008; Bedford & Malmi, 2015). Whilst this work has significantly advanced our understanding of control system design, it has remained largely rooted in a contingency-based logic, assuming that effectiveness stems from the alignment between system characteristics and contextual variables (Chenhall, 2003). However, such a perspective proves insufficient in projects characterised by high levels of uncertainty, interdependence and dynamism. Project-oriented organisations, particularly in sectors such as construction, operate under conditions where tasks are non-routine, information is incomplete and coordination needs are significant (Winch, 2010; Flyvbjerg, 2014). In such contexts, control systems cannot be reduced to static structures; rather, they function as dynamic mechanisms that structure information flows, reduce ambiguity and enable coordinated action across organisational boundaries (Davila, 2000; Ahrens & Chapman, 2004). Recent contributions have increasingly emphasised the catalytic role of management control systems in supporting organisational adaptability and resilience. Rather than merely constraining behaviour, control systems can facilitate learning, foster dialogue and support strategic responsiveness in uncertain environments (Henri, 2006; Bedford, 2020; Möller et al., 2023). Yet, despite this conceptual shift, a critical limitation persists. Much of the literature continues to implicitly assume that formally designed systems are effectively implemented in practice. Empirical evidence suggests the opposite, revealing that control systems may be used selectively, weakly coupled with organisational routines, or adopted symbolically without producing substantial effects (Mundy, 2010; Tessier & Otley, 2012). This gap between formal design and actual use calls for a more in-depth examination of the social and cognitive conditions under which control systems become effective.

The legitimacy of management control systems as a mechanism for reducing uncertainty:

Legitimacy theory offers a particularly fruitful perspective for addressing this limitation by shifting the focus from structural design to social acceptance. Legitimacy, as conceptualised by Suchman (1995), refers to a widespread perception that organisational practices are appropriate within a socially constructed system of norms, values and beliefs. More recent developments have refined this perspective by emphasising the processual and relational nature of legitimacy, highlighting how it emerges through ongoing interactions between organisations and their stakeholders (Bitektine & Haack, 2015; Haack et al., 2021; Suddaby et al., 2017). Applied to management control systems, this perspective suggests that their effectiveness cannot be fully understood independently of how they are perceived, interpreted and implemented by organisational actors. Control systems perceived as legitimate are more likely to be accepted as relevant, aligned with organisational values and worthy of respect. This acceptance promotes consistent use, facilitates interpretation and reinforces the credibility of the information they produce (Ahrens & Chapman, 2004; Bedford & Malmi, 2015). Conversely, when control systems lack legitimacy, they may be challenged, circumvented or implemented superficially, thereby generating ambiguity and undermining the function they are intended to fulfil. In uncertain environments, the role of legitimacy becomes particularly salient. Uncertainty is not merely the result of incomplete information, but also reflects ambiguity regarding appropriate actions and interpretations (Daft & Weick, 1984). By aligning control systems with shared norms and expectations, legitimacy reduces interpretative ambiguity and stabilises organisational behaviour. In this sense, legitimacy can be understood as a mechanism that transforms formal control systems into socially embedded practices that guide action and reduce uncertainty (Deephouse et al., 2017; Haack et al., 2021).

From this perspective, the legitimacy of management control systems helps to reduce uncertainty by enhancing clarity, fostering trust in control mechanisms and aligning stakeholders' expectations. This leads to the following hypothesis:

H1: The legitimacy of management control systems is negatively associated with organisational uncertainty.

Uncertainty reduction, coordination and financial performance: a process-based perspective:

Reducing uncertainty is a fundamental prerequisite for effective coordination, particularly in organisational

contexts characterised by interdependence and task complexity. Classical organisational theory emphasises that coordination challenges increase as uncertainty rises, necessitating mechanisms capable of structuring information and guiding collective action (Thompson, 1967; Galbraith, 1973). In project-oriented environments, where activities are closely interlinked and outcomes depend on the synchronisation of multiple actors, uncertainty can severely disrupt coordination processes, leading to inefficiencies, delays and cost overruns (Winch, 2010; Flyvbjerg, 2014). On the other hand, reducing uncertainty enhances the predictability of actions, improves communication and facilitates the alignment of organisational efforts. Management control systems contribute to this process by providing structured information, performance indicators and common benchmarks that enable actors to coordinate their activities more effectively (Davila, 2000; Bedford, 2020). When uncertainty is reduced, coordination becomes more effective, decision-making more consistent and organisational processes more stable. Better coordination, in turn, has direct implications for financial performance. Effective coordination reduces transaction costs, minimises delays and improves resource utilisation, thereby contributing to better organisational outcomes (Flyvbjerg, 2014; Bedford, 2020). In this sense, performance should not be viewed as the immediate result of control systems, but rather as the outcome of a sequence of intermediate processes through which control systems structure organisational action.

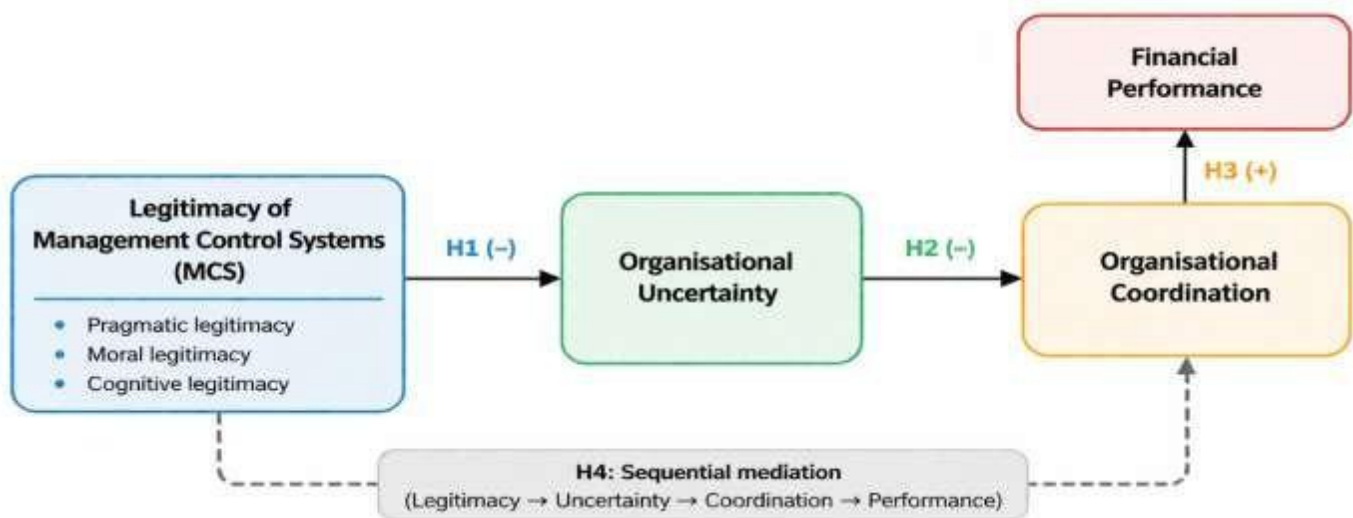
Building on this reasoning, the relationship between the legitimacy of management control systems and financial performance can be conceptualised as indirect and process-based. Legitimacy enhances the effectiveness of control systems by reducing uncertainty; reduced uncertainty improves coordination; and better coordination ultimately leads to superior financial performance. This leads to the following hypotheses:

H2: Organisational uncertainty is negatively associated with coordination.

H3: Coordination is positively associated with financial performance.

H4: The relationship between the legitimacy of management control systems and financial performance is sequentially mediated by the reduction of uncertainty and coordination.

Figure 1. Conceptual model of the research



Source: Authors

The conceptual model illustrates the sequential process through which the legitimacy of management control systems influences financial performance. More specifically, legitimacy is expected to reduce organisational uncertainty, which in turn facilitates better coordination among the organisation’s stakeholders. This improved coordination then translates into better financial performance. This process-oriented framework highlights the fact that the effect of management control systems on performance is indirect and operates through interdependent organisational mechanisms.

RESEARCH METHODOLOGY

Research paradigm and rationale:

This study adopts a quantitative research design within a post-positivist paradigm, which assumes that organisational phenomena can be analysed through observable relationships whilst acknowledging their contextual complexity. In line with this perspective, the study follows a hypothetical-deductive approach, in which theory-derived hypotheses are empirically tested using quantitative data. This approach is particularly suited to examining the relationships between management control systems, organisational uncertainty, coordination and financial performance, as it allows for the identification of statistically significant patterns and causal mechanisms (Creswell & Creswell, 2018; Saunders et al., 2019). Furthermore, the study adopts a process-oriented perspective, focusing on indirect and sequential relationships rather than direct effects, in line with recent developments in management research (Hayes, 2018).

Research approach and data collection:

The study is based on a survey methodology applied to the Moroccan construction sector, a context characterised by high uncertainty, project-based structures and significant coordination requirements (Winch, 2010; Flyvbjerg, 2014). This empirical framework provides a relevant context for analysing the role of management control systems in complex organisational environments. The sample comprises **175 large enterprises**, selected on the basis of a turnover threshold exceeding 100 million Moroccan dirhams, ensuring a sufficient level of organisational formalisation and the presence of structured control systems. Data were collected using a structured questionnaire administered to key organisational stakeholders, including finance managers, management controllers and project managers. These respondents were chosen due to their direct involvement in control processes and decision-making. The concepts were measured using multi-item (five-point) Likert scales. The legitimacy of management control systems was operationalised through its pragmatic, moral and cognitive dimensions (Suchman, 1995; Bitektine & Haack, 2015). Organisational uncertainty was assessed through perceived ambiguity and unpredictability, whilst coordination was evaluated through the quality of communication and the alignment of activities. Financial performance was measured using perceptual indicators related to profitability, cost control and project efficiency (Dess & Robinson, 1984).

Data analysis and hypothesis testing:

The empirical analysis was conducted in several stages. First, descriptive statistics were used to examine the distribution of the data and characterise the sample. Next, reliability and validity were assessed using Cronbach's alpha and exploratory factor analysis, thereby ensuring the robustness of the measurement scales. Thirdly, a correlation analysis was performed to explore the relationships between the variables and detect any potential multicollinearity issues. The hypotheses were then tested using hierarchical regression analysis, allowing for a sequential examination of the relationships between legitimacy, uncertainty, coordination and performance. To assess the mediating effect (H4), the analysis followed established procedures (Baron & Kenny, 1986; Hayes, 2018), supplemented by additional checks. This approach enables the identification of indirect effects and validates the procedural nature of the proposed model. Finally, diagnostic tests were conducted, including variance inflation factors (VIF), Durbin-Watson statistics and residual analysis, to ensure the validity and reliability of the results.

Although financial performance is measured using perceptual indicators, this approach enjoys widespread support in management research, particularly when objective financial data is difficult to access or likely to be reported inconsistently. Previous studies have demonstrated a strong correlation between subjective and objective performance measures, thereby validating the use of perceptual data (Dess & Robinson, 1984; Venkatraman & Ramanujam, 1986). Furthermore, perceptual measures allow for a more comprehensive assessment of organisational effectiveness, taking into account dimensions such as cost control, project efficiency and profitability, which are not necessarily fully reflected in accounting indicators. Consequently, the use of perceived financial performance in this study is considered both methodologically appropriate and theoretically justified.

RESULTS

Descriptive statistics and correlations:

Table 1 presents the descriptive statistics and correlation matrix for the main variables. The results show acceptable levels of variability between the constructs, with mean values ranging from moderate to relatively high, suggesting that management control systems are generally well perceived within the companies in the sample.

Table 1. Descriptive statistics and correlation matrix

Variables	Mean	Standard deviation	1	2	3	4
Legitimacy of the SCG	3.82	0.64	1			
Uncertainty	2.91	0.71	-0.42**	1		
Coordination	3.76	0.58	0.48**	-0.46**	1	
Financial performance	3.69	0.62	0.39**	-0.37**	0.51**	1

Note: $p < 0.01$

Source: Authors

The correlation results provide initial support for the proposed relationships. The legitimacy of management control systems is negatively correlated with uncertainty and positively associated with coordination and financial performance. Furthermore, uncertainty is negatively linked to coordination and performance, whilst coordination shows a strong positive correlation with financial performance. These results are consistent with theoretical expectations and justify further hypothesis testing.

Reliability and validity of the constructs:

The internal consistency of the measurement scales was assessed using Cronbach's alpha. All constructs exceed the recommended threshold of 0.70, indicating satisfactory reliability.

Table 2. Reliability analysis (Cronbach's alpha)

Construct	Number of items	Cronbach's alpha
Legitimacy of the SCG	15	0.89
Uncertainty	5	0.84
Coordination	5	0.86
Financial performance	5	0.88

Source: Authors

The reliability analysis indicates that all conceptual variables exhibit a high level of internal consistency. Cronbach's alpha values range from 0.84 to 0.89, thus exceeding the generally accepted threshold of 0.70, which confirms the robustness of the measurement scales. The concept of legitimacy within the MCS exhibits particularly high reliability ($\alpha = 0.89$), reflecting the consistency of its multidimensional structure. Similarly, uncertainty, coordination and financial performance display satisfactory levels of reliability, confirming the validity of the concepts used in the empirical analysis.

Hypothesis testing:

A hierarchical regression analysis was conducted to test the proposed hypotheses.

H1: Legitimacy → Uncertainty

Table 3. Regression results (Dependent variable: Uncertainty)

Variable	Beta	t-value	Significance
Legitimacy of the SCG	-0.41	-6.32	0.000

R² = 0.17

Source: Authors

The legitimacy of the SCG has a significant and negative effect on organisational uncertainty ($\beta = -0.41, p < 0.001$), confirming H1. This finding suggests that when control systems are perceived as legitimate, they reduce ambiguity and improve the clarity of organisational processes.

H2: Effect of uncertainty on coordination

Table 4. Regression results (dependent variable: coordination)

Variable	Beta	t-value	Significance
Uncertainty	-0.44	-6.78	0.000

R² = 0.19

Source: Authors

Uncertainty has a negative effect on coordination ($\beta = -0.44, p < 0.001$), confirming H2. This indicates that higher levels of uncertainty hinder effective coordination between organisational actors.

H3: Effect of coordination on performance

Table 5. Regression results (Dependent variable: Financial performance)

Variable	Beta	t-value	Significance
Coordination	0.49	7.21	0.000

R² = 0.24

Source: Authors

Coordination has a marked positive effect on financial performance ($\beta = 0.49, p < 0.001$), which confirms hypothesis H3. This confirms that better coordination improves efficiency and performance outcomes.

Mediation analysis (H4)

To test the sequential mediation effect, a hierarchical regression approach was applied.

Table 6. Sequential mediation test

Model	Variables included	R	ΔR^2
1	Legitimacy → Performance	0.15	—

2	+ Uncertainty	0.22	0.07
3	+ Coordination	0.31	0.09

Source: Authors

The results indicate that the direct effect of the legitimacy of management control systems on financial performance diminishes when uncertainty and coordination are introduced into the model, whilst the overall explanatory power increases significantly. This pattern confirms the presence of a **sequential mediation effect**, which supports Hypothesis H4. More specifically, legitimacy influences performance indirectly through its impact on uncertainty and coordination, highlighting the procedural nature of this relationship.

Overall, the results provide strong support for the proposed model. They confirm that the legitimacy of management control systems does not directly influence financial performance, but operates through a sequence of intermediary mechanisms. By reducing uncertainty and improving coordination, legitimate control systems contribute to more effective organisational functioning and better performance outcomes.

DISCUSSION

The findings of this study call for a thorough re-examination of the role of management control systems in complex organisational environments. Rather than exerting a direct and immediate influence on financial performance, management control systems appear to operate through a sequence of interdependent mechanisms, the effectiveness of which depends on their perceived legitimacy. This finding challenges the dominant perspectives derived from contingency theory, which traditionally assume that alignment between the design of the control system and contextual variables is sufficient to ensure effectiveness (Chenhall, 2003). Whilst alignment remains important, the present findings demonstrate that it is not the mere existence of control systems that matters, but the extent to which these systems are socially accepted and cognitively internalised by organisational actors. From this perspective, legitimacy emerges as an essential micro-foundation for the effectiveness of control systems. When management control systems are perceived as legitimate, they help to reduce interpretative ambiguity, thereby stabilising expectations and guiding organisational behaviour. This finding is consistent with recent developments in legitimacy theory, which emphasise its cognitive and relational dimensions (Bitektine & Haack, 2015; Haack et al., 2021). Legitimacy does not function merely as a symbolic attribute; rather, it acts as an operational mechanism that enhances the usability and credibility of control practices. In this sense, the study extends previous research by demonstrating that legitimacy plays an active role within internal organisational processes, rather than being confined to external institutional environments.

The results further highlight the central role of uncertainty as a structuring condition of organisational dynamics. In line with classical organisational theory (Galbraith, 1973; Thompson, 1967), it is demonstrated that uncertainty disrupts coordination by fragmenting communication and weakening alignment among organisational actors. However, this study goes beyond this traditional view by demonstrating that uncertainty can be effectively reduced through legitimate control systems. This finding suggests that uncertainty is not merely an exogenous constraint, but a manageable organisational condition, shaped by the design and acceptance of control mechanisms.

Coordination, for its part, emerges as the key transmission channel linking internal organisational processes to financial performance. The strong and significant relationship between coordination and performance supports the idea that organisational effectiveness is fundamentally relational. Rather than being the direct result of formal control structures, financial performance appears to stem from the quality of interactions, the alignment of actions and the coherence of decision-making processes. This finding echoes recent contributions in the management control literature that highlight the catalytic role of control systems in promoting dialogue, learning and collective action (Bedford, 2020). It is important to note that the absence of a dominant direct effect of legitimacy on financial performance, combined with the strength of indirect effects, provides strong support for a process-based explanation. This sequential mediation highlights that the impact of management control systems unfolds through successive transformations: legitimacy enhances clarity, clarity reduces

uncertainty, reduced uncertainty facilitates coordination, and coordination ultimately improves performance. This perspective contributes to the growing body of research advocating process-oriented explanations in management and offers a more nuanced understanding of how organisational outcomes are produced in practice.

Nevertheless, other explanations must be considered. For example, coordination itself may be influenced by other organisational factors, such as leadership style, organisational culture or digitalisation capabilities. Similarly, the observed relationships may partly reflect underlying organisational capabilities, as suggested by the resource-based view. Future research could therefore explore these competing explanations in order to refine and extend the proposed framework. Overall, this study contributes to the literature by bridging the perspectives of management control and legitimacy within a unified process-based framework. It demonstrates that the effectiveness of control systems depends not only on their structural configuration, but also on their social embeddedness and interpretative acceptance. In doing so, it provides a more comprehensive and realistic description of how organisations manage complexity and achieve performance in uncertain environments.

CONCLUSION

This study aimed to deepen our understanding of how management control systems contribute to financial performance in complex and uncertain organisational environments. Moving beyond traditional design-focused perspectives, it offers a process-based explanation, according to which the effectiveness of management control systems depends on their perceived legitimacy and is exerted through sequential organisational mechanisms. The results provide strong evidence that management control systems do not exert a direct influence on financial performance. Rather, their impact is exerted through the reduction of organisational uncertainty and the improvement of coordination among organisational actors. By demonstrating that legitimacy promotes clarity, reduces ambiguity and enables collective alignment, this study highlights the fundamentally social and cognitive nature of the effectiveness of control systems. In doing so, it challenges prevailing assumptions that focus solely on structural alignment and offers a more nuanced understanding of how control systems operate in practice.

From a theoretical perspective, this research contributes to the literature on management control by introducing a process-oriented perspective that repositioning uncertainty reduction as a central function of control systems. It further extends legitimacy theory by conceptualising legitimacy as a microeconomic foundation of organisational effectiveness, thereby bridging the gap between institutional perspectives and internal organisational processes. This integrated approach provides a more comprehensive framework for analysing how organisational practices become effective in complex environments. From a managerial perspective, the findings suggest that improving organisational performance requires more than refining the technical design of control systems. It requires strengthening their legitimacy by ensuring their alignment with organisational values, improving transparency, and encouraging the active engagement of organisational actors. In this regard, legitimacy emerges as a key lever through which organisations can reduce uncertainty, strengthen coordination and improve overall effectiveness.

Despite these contributions, the study has several limitations that open up avenues for future research. The cross-sectional design limits the ability to capture dynamic processes over time, and the use of perceptual measures may introduce a degree of subjectivity. Future research could adopt longitudinal approaches and incorporate objective performance indicators to enhance the robustness of the findings. Furthermore, extending the analysis to different sectors and institutional contexts would allow for a broader validation of the proposed framework. Overall, this study highlights the importance of adopting a more integrative and process-oriented perspective in the analysis of management control systems. By highlighting the central role of legitimacy in shaping organisational dynamics, it offers a new understanding of how organisations manage complexity and achieve sustainable performance in increasingly uncertain environments.

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