

**Asian Economic Crisis, Business Strategy and Planning and Control Systems:
An Empirical Study Using Latent Variables Modelling**

Michael Shih

National University of Singapore, and University of Toronto

Lee-Chien Yong

National University of Singapore

ABSTRACT

The study tests the hypothesis that the effect of business strategy on the attributes of the planning and control system is second-order as opposed to first-order; i.e., business strategy determines the values of a set of unobservable or latent variables, and it is these latent variables that determine how the planning and control system should be designed.

Classifying firms by the Prospector vs. Defender strategy typology of Miles and Snow (1978), we find that the more a firm is Prospector-like, the more decision making is geared toward the long term and the more decentralized is the firm's control. We also find that the more a firm is Prospector-like, the less uncertainty it faces in its operating environment, not more, as predicted by Anthony and Govindarajan (1998). Our finding is consistent with Prospector type firms' superior ability to know when and where change in their industries will take place as a result of their being creators of change in their industries.

As for attributes of the planning and control system, the extent that budgets are used as a control tool decreases with environmental uncertainty, as predicted. But we fail to find a linkage between the adoption of a long-term perspective and higher weights for non-financial criteria and subjective assessment in performance evaluation systems.

Lastly, based on data collected from large firms in Singapore, the study shows that the greater the impact of the 1997-1999 Asian economic crisis on a firm, the less the firm is Prospector-like. The result suggests that in times of crisis, the first priority to most firms is survival, not product and market innovation.