

Research proposal

The role of management accounting in the strategic change

Salla Siivonen
University consortium of Pori
P.O. Box 181, 28101 Pori
tel. +358 2 627 2911

Abstract

In the management control literature there is growing interest in the role of management control systems in strategic change situation. (Chenhall & Euske 2007, 601) However there has been very little research about the topic. The accounting literature emphasizes the role of management control system as an organizational mechanism that supports strategic change, but empirical studies have not addressed the way in which management uses the management control system as an organizational mechanism that supports strategic change. The reason for this is that studies on the management control system-strategy relationship have modeled strategy as determinant of management accounting system, rather than as consequence of the management accounting system. The second reason which is partly connected with the first reason is that the notion of control systems playing a proactive role in shaping change is not the conventional approach taken by researchers who saw control systems as passively following change. This study examines how the managers use management accounting in the strategic change in the two organizations.

Key words: management accounting, management control systems, strategic change, strategic management accounting, contingency theory,

1. BACKGROUND

1.1 Management accounting

Management accounting measures and reports financial information as well as other types of information that are intended primarily to assist managers in fulfilling the goals of the organization (Horngren, Datar, Foster 2003, 5). CIMA (2000, 3) considers management accounting to require the identification, generation, presentation, interpretation and use of information relevant to:

- formulating business strategy
- planning and controlling activities
- decision making
- efficient resource usage
- performance improvement and value enhancement
- safeguarding tangible and intangible assets, and
- corporate governance and internal control.

Conventional wisdom portrays management accounting as providing information for management planning and control and, as argued elsewhere, such a portrayal is grounded in the neo-classical economic theory of the firm. However, as neo-classical economic theory is based on the core economic assumptions of rationality and equilibrium, it has difficulty in analyzing processes of change. Neo-classical economic theory is more concerned with predicting the rational or optimal outcomes, rather than explaining the unfolding processes in moving from one equilibrium state to another. (Burns & Scapens 2000, 4)

Traditional management accounting techniques (especially budgeting) are nowadays being used alongside new and so-called “advanced” accounting techniques such as rolling forecasts, activity – based costing and the balanced scorecard. While new information technology is driving routine accounting tasks into centralized positions in many organizations, management accounting is becoming more and more decentralized and being pushed out into core business areas. This means that a great deal of management accounting is being undertaken by the business managers. It is not uncommon for management accountants to nowadays be proactively involved in such areas as strategy, information systems implementation and change management. The challenges include how best utilize the extended capacities of the information technology on offer, and how new “advanced” management accounting techniques can best be aligned to broader (organizational, environmental, managerial) changes that continually (re-)mould the context in which management accounting operates. (Burns & Vaivio 2001, 390-391)

A further revolution in management accounting may be required to help enterprises meet global challenges in product markets. There is need to release management accounting from the factory floor to allow it also to aid directly in meeting market challenges. Such a reorientation would permit management accounting additionally to focus on the firm’s value added relative to its competitors. It could also aid in monitoring the firms performance in the market place using a whole range of strategic variables over a decision horizon sufficiently long for strategic plans. These concepts form the core of the new concept of strategic management accounting. (Bromwich 1990, 28)

1.1.1 Strategic management accounting

Since the 80s a new term has arrived into management accounting literature. “Strategic management accounting” (SMA) (Simmond 1981). In the following decades a debate about what

SMA comprises has been originated. It is accepted that SMA is identified as a generic approach to accounting for strategic positioning (Roslender & Hart 2003). CIMA (2002, 50) gives the definition about strategic management accounting saying that it is a form of management accounting in which emphasis is placed on information which relates to factors external to the firm, as well as non-financial information and internally generated information. Nilsson & Rapp (1999, 65) see that strategic management accounting is one of the two lines of research to study management control systems from a strategic perspective. A particular feature of this school is the emphasis on the idea that management control systems should provide information on the cost structure, product markets and strategies of a firm's competitors. (Nilsson & Rapp 1999, 65) SMA may be viewed as an attempt to integrate insights from marketing management and management accounting within a strategic management framework (Roslender & Hart 2003). The literature suggests that strategic management accounting (SMA) should incorporate strategic product costing and performance measurement, analyses of the firm's product markets and competitive market forces, and the assessment of organisational strategies over extended periods of time. (Horngrén, Datar, Foster 2003, 790)

Bromwich (2001) sees SMA as going beyond collecting data on businesses and their competitors, to considering the benefits that products offer to customers, and how these benefits contribute to building and sustaining competitive advantage. The intent of strategic management accounting might therefore be to determine the cost of providing product features to consumers given operating conditions which continuously seek improvement (Horngrén et al 2003, 791). Strategic management accounting is specific to the extent that it connotes the integration of external with internal financial and non-financial information. It has been claimed that strategic management accounting is one of new management accounting techniques which has been developed largely by practitioners within their own organisations. So it should not come as a surprise that SMA is deployed in some organisations in ways that are highly enterprise specific. (Horngrén et al 2003, 806) Strategic management is fundamentally concerned with environmental changes and organizational adaptation. Research findings on changes in strategy (and the role of management control systems) have not evolved into a coherent body of knowledge. The next section analyzes the topic more.

1.2 The role of management control systems in the strategic change

Management control systems (MCS) are important in providing information to assist in formulation and implementing strategies (Simons 1995, Langfield-Smith 1997) However there has been very little research examining the role of management control systems (MCS) in organizations undergoing strategic change. (Abernethy & Brownell 1999, 189) The accounting literature emphasizes the role of management control system as an organizational mechanism that supports strategic change (e.g. Hopwood 1987, Dent 1990, Nilsson & Rapp 1999, Simons 1995, Argyris 1990, Hedberg & Jonsson 1978), but empirical studies have not addressed the way in which management uses the management control system to engage in strategic change directly. A reason for this lack of evidence is that studies on the management control system-strategy relationship have typically modelled strategy as a determinant of management accounting system, rather than as consequence of the management accounting system (Naranjo-Gil & Hartmann 2006, 2). Also the notion of control systems playing a proactive role in shaping change is not the conventional approach taken by some prior researchers who saw control systems as passively following change (Langfield-Smith 1997, 224) Luft and Shields (2003, 200) point out that management accounting is not easily classified as only a dependent or only an independent variable – it tends to be implicated in a more complex way in the unfolding of events as both cause and effect of changes. Ahrens &

Chapman (2007, 2) see that members in an organisation know the limitations of accounting and reporting practices but they draw on them when example pursue different objectives. So accounting can potentially make significant contributions to the ways in which organisations coordinate intentional action.

The following section provide selective examples of research. As Chenhall & Euske (2007) do the researcher groups the studies into four categories to help identify emerging themes in the literature. The conclusion from studies has presented in the Figure 1 (page 8) First, a variety of studies examine the external context, often investigating the historical development of the organization as it responds to external contingencies and how MCS are affected by them, in turn, effect the way organizations change. Second a selection of studies focus on internal aspects of the organisation to show how MCS help integrate the different information needs of managers for change depending on their level in the hierarchy of the organization. Third are the studies that are more concerned with the importance of MCS in developing and supporting networks and managing interdependencies to help diffuse and integrate change across the organisation. Finally, the level of analysis moves to the employees involved in change and the extent to which their commitment to change is mobilized by the MCS. These studies consider the individual at an aggregate level using an industrial relations perspective.

Line 1. Research: These studies involve consideration of changing managerial cultures from those historically based on non-commercial goals to more market-based approaches.

Llewellyn & Northcott (2005) demonstrate how the activities and processes of hospital life “become average” as they are transformed to comply with the cost accounting average and to indicate how the average is being promoted as the norm for hospitals to aspire to. The paper tracks the complex processes that create the hospital of average cost. Llewellyn & Northcott (2005, 557) identified 10 different influences on reported costs and grouped them into four categories: differences in costing approaches, variations in underlying clinical activities “legitimately” related to patient needs, issues of information quality and fourth, the “efficiency” in clinical coding, in the counting activity and in the data collection capacity of information systems. The key argument of this paper is that hospitals are more average places as a consequence of the introduction of Healthcare Resource Comparisons. This “averageness” comes about in several ways as peoples’ behaviour and organizational practices are moulded so as to fit into categories. (Llewellyn & Northcott 2005, 578) Will “averageness” raise standards in hospitals is a complex question that the study did not set out to answer. The government clearly believe that funding on the basis of average costs will intensify the trend of increased productivity, however it may deter clinicians from meeting the very expensive care needs of particular patients. Also there may be a trade off between productivity and innovation and the extent to which patients may benefit from more standardised care is unclear. (Llewellyn & Northcott 2005, 580)

Line 2. Research: These studies consider how MCS can deliver information down to operating managers to enable them to take more effective decisions related to resources and capabilities, while providing a way for top management to integrate operations with strategic priorities.

Soin, K., Seal W & Cullen J. (2002) use the institutional theory to interpret the role of management accounting in organizational change, the paper reports on the longitudinal empirical study of the implementation of an Activity-Based Costing (ABC) system in the Clearing Department of a UK-based multinational bank. The aim of the research was to offer an insight into the development and implementation of ABC in the bank in an attempt to delve into the processes of management control and to link them to the social processes occurring both inside and around the organization. (Soin et

al 2002, 252) The study focuses on the intra-organizational aspects of change, although consideration was given to the broader institutional dimensions since these form part of the cumulative institutional context in which the intra-organizational processes of change operate. In this context, despite the fact that a more commercial and competitive environment had emerged in UK banking, and the introduction of marketing concepts had led to greater awareness of both “products” and customers, these developments were very recent in terms of organizational culture. Soin et al (2002) used Burns & Scapens (2000) three dichotomies to interpret the role of management accounting in organizational change. These three dichotomies related to: formal versus informal change: revolutionary versus evolutionary change: and regressive versus progressive change.

Collier, P. M. (2001) describes the introduction of management accounting change in the form of local financial management in a police force, West Mercia Constabulary, using an ethnographic study. The study explains how the devolution of budgets in West Mercia was accompanied by a shift in power that helped to reconcile the interests of those pursuing a legitimating accountability with those who prioritized operational policing. The study applies institutional theory to understand the context, process and consequences of the introduction of devolved budgeting systems to the organization. The paper makes two contributions to institutional theory. First, is the development of understanding of relations of power, particularly where interests coincide and shifts in power are a by-product of legitimating processes. Second, is an explanation of how loose coupling can take place through accounting, in which a devolved budget can satisfy both institutional and technical demands.

Line 3. Research: The third theme of accounting change research involves considering MCS as a unifying language and a way of thinking that assists in developing networks across the organization and of identifying and managing potential interdependencies between parts of the organization.

Briers and Chua (2001) seeks to illustrate how an organisation’s accounting system can be changed by a heterogeneous actor-network of local and global actors and actants. The aim of their paper is to use actor-network theory to illustrate how networks of heterogeneous machines, boundary objects, local actors and cosmopolitans can change an organisation’s accounting and productive activities. In addition, the focus is on the role of different types of boundary objects, that is, devices that are able to mediate different actor-worlds. The larger research questions which the current project addresses is – how does accounting change occur, or more precisely, how is change enacted. (Briers & Chua 2001, 238) The study illustrates that change is the outcome of many, varied and fluid interconnections between local and cosmopolitan networks of actors and actants. The change has also several implications for the concept of agency. First, they study shows the extra organisational origins of internal accounting change. As a result, in today’s time-and-space-compressed postmodern world, change at a specific site may be influenced not just by the actions of local managers but by factors far away. Change, was not a particularly heroic affair. They concur that company’s new managing director was an important element in the change process. But this element is necessary, but not sufficient for change to occur. There need to be other actors/sponsors/allies that are located within the lower reaches of the firms. (Briers & Chua 2001, 264)

Quattrone & Hopper (2005) analyse the effects of implementing an Enterprise Resource Planning system (ERP) upon management control in two multinational organisations. The paper questions whether contemporary theories of control satisfactorily represent relations between entities in a MNO, especially when ERPs purporting to eliminate distances through integrated real-time

information systems are implemented (Quattrone & Hopper 2005, 738). The two case studies describe contrasting journeys toward organisational architecture and order when implementing ERP. Each MNO adopted different strategies, which resulted in different configuration, implementations, and usages of SAP. In one organisation the ERP reproduced existing structures and distance which permitted conventional accounting controls based on action at a distance to be maintained. The second organisation used ERP to collapse distance through real-time information in a matrix structure. This did not increase centralisation but rather produced constantly changing logic of control and managerial feelings of “minimalist” control. (Quattrone & Hopper 2005, 735) The research issue in large organisations is not identifying where centres of power and control do and should reside but rather tracing how control is related to integration and establishing order into work activities. This is a complex process involving inscriptions, translations, beliefs, mediation, accounting, and information processing technologies. (Quattrone & Hopper 2005, 760-761)

Line 4. Research: These researches involve identifying how a lack of attention to industrial relations issues can be an impediment to employing MCS to effect change.

Ezzamel, Lilley & Willmott (2004) examine the contribution of inscriptions (particularly new accounting measures) to a process of transforming the ethos and operations of “Britech”, a high-tech division of a major British manufacturer. Focusing upon the emergence of diverse written performance measures in Britech they seek to examine the potential of writing for establishing inscriptions that are generally presented by managers. They suggest three specific implications of the intervention of new inscribed measures in organisations. First, the power of new inscriptions can become manifest in the construction of new agents and new organisational methods. Secondly, inscribed measures facilitate the development and enactment of new powerful metaphors that have the capacity to underpin new organisational “vision”. Thirdly, written measures are at the centre of power/knowledge relations. The writers point out that in assessing the impact of inscribed measures on the functioning of Britech, it is important to appreciate the difficulty of isolating the effects of writing from changes in industry and market conditions. The introduction and influence of inscriptions have to be located within the wider politic-economic and institutional contexts of their application.

Chenhall & Langfield-Smith (2003) examines the extent to which a manufacturing company used performance measurement and a gain-sharing reward system to achieve strategic change over a 15-year period. The study has three main aims. First, it adds to the limited research examining the effects of performance evaluation and compensation schemes at the shop-floor level. Second, the research studies the evolution of control systems over time. Third, the study employs theories of trust to gain insights into how synergies or incompatibilities between trust and control systems may affect organizational performance. (Chenhall & Langfield-Smith 2003, 119) The study examines the initial impact of the gain-sharing scheme in overcoming inherent hostility within the workforce, its continued success in improving performance, and finally its limitations in sustaining ongoing strategic change after ten years of apparent success. They also analyze the subsequent adoption of additional mechanism, based around team-based structures, to sustain employee effort to achieve strategic change. Chenhall & Langfield-Smith (2003) used theories of trust to explain the evolution of gain sharing and structural arrangements in the manufacturing company. Alternative theoretical perspectives may also contribute to explaining these phenomena. For example, agency and motivation theories provide potentially powerful theoretical bases to examine MCS and trust in organizations. Chenhall & Langfield-Smith (2003, 137) concludes that consideration of the organizational context appears to be important in understanding the relationship between trust and MCS. In the case company gain sharing and organizational trust worked well when the operating situation was rich in opportunities. As the context became more turbulent, this combination

appeared inappropriate and management introduced self-managed teams to encourage personal trust. The continued use of gain sharing as the formal reward system was inconsistent in this setting. More open flexible social controls may have been more suitable to developing personal trust and cooperative innovation.

The existing literature has, in the main, adopted an aggregate level of analysis drawing on approaches that incorporate a number of perspectives such as institutional theory, actor network theory and boundary objects, and theories from multiple disciplines including economics, operations management and human relations. (Chenhall & Euske 2007, 607) Chenhall & Euske (2007) confirms that the view of some prior studies that an appreciation of the role of MCS and change requires a study of the long-term (eg. Bhimani, 1993; Dent, 1991). The impediments to induce change by providing relevant information to operating managers include systems design difficulties, such as overly complex design, scope creep or lack of compatibility between local systems. Chenhall & Euske (2007) suggests that providing information to help facilitate change at the operational level and the provision of information to senior strategic decision makers can be a difficult task. To effectively employ MCS to develop networks it is necessary to pay attention to the training and socializing modes of change that are essential in shifting managers' mindsets. They point out that existing literature has examined employee commitment at an aggregate level. However the issue of individual commitment to MCS facilitated change is also important.

Figure 1. The Role of Management Control Systems in the Strategic Change

The external environment**Llewellyn & Northcott 2005**

How the activities and processes of hospital life "become average" as they are transformed to comply with the cost accounting average and to indicate how the average is being promoted as the norm for hospitals to aspire to.

Llewellyn & Northcott 2005

Hospitals are more average places as a consequence of the introduction of Healthcare Resource Comparisons. The averageness comes about in several ways as people behavior and organizational practices are moulded so as to fit into categories.

The internal aspects of the organisation**Soin, Seal & Cullen 2002**

The paper offer an insight into the development and implementation of ABC in the Bank in an attempt to delve into the processes of management control and to link them to the social processes occurring both inside and around the organization.

Soin, Seal & Cullen 2002

More commercial and competitive environment emerged in UK banking, and the introduction of marketing concepts had led to greater awareness of both "products" and customers, these developments were very recent in terms of organizational culture.

Collier 2001

The study explains how the devolution of budgets in a police force was accompanied by a shift in power that helped to reconcile the interests of those pursuing a legitimating accountability with those who prioritized operational policing.

Collier 2001

The development of understanding of relations of power and shifts in power are by-product of legitimating processes. An explanation of how loose coupling can take place through accounting in which a devolved budget can satisfy both institutional and technical demands.

The importance of MCS in developing supporting networks and managing interdependencies**Briers & Chua 2001**

How an organisation's accounting system can be changed by a heterogeneous network of local and global actors. In addition, the focus is on the role of different types of boundary objects, devices that mediate different actor-worlds.

Briers & Chua 2001

The study illustrates that change is the outcome of many varied and fluid interconnections between local and cosmopolitan networks of actors. As a result, in today's time-and-space compressed postmodern world, change at a specific site may be influenced not just by the actions of local managers but by factors far away.

Quattrone & Hopper 2005

The effects of implementing an Enterprise Resource Planning system upon management control in two multinational organizations. The paper questions whether contemporary theories of control satisfactorily represent relations between entities in the MNO.

Quattrone & Hopper 2005

The research issue in large organizations is not identifying where centres of power and control do and should reside but rather tracing how control is related to integration and establishing order into work activities.

The extent to which employees commitment to change is mobilized by the MCS**Ezzamel, Lilley & Willmott 2004**

The contribution of inscriptions to a process of transforming the ethos and operation of a high-tech division of a major British manufacturer.

Ezzamel, Lilley & Willmott 2004

In assessing the impact of inscribed measures on the functioning of company, it is important to appreciate the difficulty of isolating the effects of writing from changes in industry and market conditions.

Chenhall & Langfield-Smith 2003

The extent to which a manufacturing company used performance measurement and a gain-sharing reward-system to achieve strategic change over a 15-year period

Chenhall & Langfield-Smith 2003

Consideration of organizational context appears to be important in understanding the relationship between trust and MCS. Gain sharing and organizational trust worked well when the operating situation was rich opportunities. As the context became more turbulent this combination appeared inappropriate.

2. THE PURPOSE OF STUDY AND RESEARCH QUESTIONS

Research objective is the evidence of the researcher's clear sense of purpose and direction (Saunders, Lewis & Thornhill 2003, 25).

The study examines the role of management accounting in the strategic change.

The aim is to analyse the role of management accounting (and the management control systems) in the strategic change situation in two Finnish case companies. The literature emphasizes the role of management control system as a mechanism that supports strategic change but empirical studies have not addressed the way in which management uses the management control system to engage in strategic change directly. This study will address **how management uses the management control systems in the strategic change.**

Research questions drive research. The first step in research is wrestling with problems. A useful strategy to get hold of the research problem is to ask questions. Good questions have the following characteristics:

1. They express relationship(s) between two (or more) variables.
2. They are clear i. e. what is asked is understood.

The advantage of expressing relationships between variables is that they can be tested. The initial research problem is often rather vague and general. (Ghauri & Gronhaug 2005, 44-45) The research problem of this study is temporary and will develop when the study proceeds.

How does management accounting emerge and work in strategic change?

The focus of this main research question is to analyze how managers (and other people) use management accounting systems in organizations facing strategic change.

3. METHODOLOGY

The methodology adopted will shape the research process and the research findings to a far greater extent than will the research methods. Methodology reflects the ontological and epistemological assumptions of the researcher whereas methods are secondary concerns around the techniques used for data collection. (Llewellyn 1993, 233)

3.1 The research method – a case study method

The research method of this study will be a case study. Case study research is particularly useful when the phenomenon under investigation is difficult to study outside its natural setting and also when the concepts and variables under study are difficult to quantify. Case research refers to qualitative and field-based construction and analysis of case studies. The case method is not suitable for all types of research. It is the research problem and the objective that decide whether the case method is suitable or not. (Ghauri & Gronhaug 2005, 114-115) The case method is often preferred approach when “how” or “why” questions are to be answered, when the researcher has little control over events and when the focus is on current phenomenon in a real life context. Quite often it is stated that the case study method is used when we want to study a single organization. However, it is equally possible to study a number of organisations. (Ghauri & Gronhaug 2005, 116) The study

at hand will be a two-case study. The longitudinal two-case study contrasts events in two organisations. Contrasting and comparing two cases illustrates and explains organisational and human properties which qualify the different outcomes in the development processes of the managerial constructs. (Puolamäki 2004, 24)

Case studies have become a popular method in accounting research, and accounting case studies are to be found in a wide range of research journals (1990-1999 24 % of the papers used case study research methods). It is important by recognising that case studies can be used in a variety of different ways in accounting research. Descriptive case studies describe accounting systems, techniques and procedures used in practise. A number of companies may be selected as cases to describe different accounting practices or the similarity of practices in different companies. Descriptive case studies are useful in providing information concerning the nature of contemporary accounting practices. (Scapens 2004, 259) The other types of case studies are illustrative case studies (illustrate new and innovative practices developed by particular companies), experimental case-studies (examine implementation problems and evaluate the potential benefits), exploratory case studies (to explore the possible reasons for particular accounting practices and to enable the researcher to generate hypotheses that can be tested) and the explanatory case study (to explain the reasons for observed accounting practices). However as the Scapens (2004, 260) point out the distinctions between these different types of case studies are not necessarily clear-cut. This study will include some points from descriptive, experimental, exploratory and the explanatory case-study types.

There is one distinction, which needs to be clear: distinction between positive and interpretive case studies. The interpretive case study views the world as socially constructed and subjective. It means that researcher seek to interpret accounting within its organisational, economic and social contexts. Interpretative case studies require an in-depth understanding of the company being studied. (Scapens 2004, 260-261) The interpretative research question tries to understand of the meaning and roles attributed to accounting. It also try to analyze the accounting endeavour in the critically and the potential for radical accounting change and third, it inquires the situated nature of accounting tracing its special and temporal trajectories. (Llewellyn 1993, 232-233) This case-study will be the interpretative as the aim of researcher is to develop an in-debt understanding about the organisations (example their physical flows, financial flows, regulations, co-ordination and control system issues).

Case study research is useful method to study relationship between MCS and strategy formulation and implementation. The aim of case research is not necessarily to identify the best fit between MCS, strategy and other variables, but to study the interactions between MCS and strategy. Case studies can allow a wide range of controls to be studied including those that are difficult to measure with surveys. (Langfield-Smith 1997, 221) Langfield-Smith (1997, 224) concludes that the case approaches provide little evidence about the specific types of controls that suit particular strategies. However, the case studies provide valuable insights into how MCS may assist in the formulation and implementation of strategies. Case studies have been criticized for their lack of generalizability and their inability to provide a body of accumulated knowledge.

3.2 The research process

Keating (1995) has developed the theory development framework for classifying case studies according to research scope. His aim is to help and increase the readers understanding how case study research contributes the growth of knowledge in management accounting. The research scope of a case study may be identified with one (or more) of the three stages of the theory development

process – theory discovery, theory refinement, and theory refutation. The stages of theory discovery, theory refinement, and theory refutation provide relatively natural categories for classifying case study research. The researchers usually focus their attention on one of the three stages, although some case studies span more than one stage of development. (Keating 1995, 67) Theory discovery studies are appropriate when describing novel phenomena or when searching for new perspectives to resolve existing theoretical anomalies. It should establish how the findings complement, corroborate, or refute related programs of research. Researchers should inform the reader about the present knowledge gaps and unresolved puzzles. The section on suggestions for future research should indicate the most likely next steps to take in advancing knowledge in this research domain. (Keating 1995, 70) Theory refinement research represents the middle ground between theory discovery and theory refutation. In reviewing the body of management accounting cases, we find the types of theory refinement cases: 1) those that illustrate a theory's capacity to illuminate a phenomenon in new or better ways (illustrative case study) and 2) those that specify the theory by adding greater precision to theoretical constructs and propositions, and rendering the theory into a refutable form (Specification case studies). Theory refutation case research is designed to disconfirm well-specified theories by bringing negative evidence to bear or to offer counterpoint readings of previous case-based interpretations. (Keating 1995, 69)

3.3 Data collection methods

Case study data are frequently collected by multiple means. These include qualitative methods, such as personal interviews, personal observation and qualitative descriptions of a company, its markets, products, competitors, technology, systems, etc. The quantitative data sources should also be incorporated. (Kaplan 1986, 442) The multiple data sources used to prepare case studies permit a variety of factors to be captured in the descriptive material. The researcher needs to understand more than just accounting issues. The phenomena being accounted for – production, marketing, R&D, administrative activities – must be described in some detail. Patterns of reporting relationships, decision making, and control must also be captured if we are to understand the context within which the accounting system is functioning. (Kaplan 1986, 445) The researcher's aim is to gain in-dept understanding about the organizations using interviews, participant observation (if possible) and descriptions of a company. The use of questionnaires as a means of collecting information from the research sites is also possible. A broad literature review will be included in the research. Intra-firm relationships (physical flows like production & distribution, financial flows, regulation, co-ordination and control issues) will be described in order to understand the context in which the accounting system operates.

Interview

The management accounting literature contains a number of multi-method field studies combining questionnaires and interviews. (Ahrens & Chapman 2006, 822). The research interview is a general term for several types of interview. Interviews may be highly formalised and structured (structured interviews), using standardised questions or they may be informal and unstructured conversations (semi-structured or unstructured interviews). (Saunders et al 2003, 246) Semi-structured and unstructured interviews are used in qualitative research in order to conduct discussions not only to reveal and understand the “what” and the “how” but also to place more emphasis on exploring the “why”. (Saunders et al 2003, 248)

Observation

Qualitative case studies hold greater potential for open-ended interaction between the researcher and researched. The researcher has less control over the researched, but has the opportunity to learn from their unprompted actions. This means that researcher can never exclude an observer effect. (Chapman 2006, 825) Observation involves the systematic observation, recording, description, analysis and interpretation of people's behaviour. The observation is particular useful if the research questions and objectives are concerned with what people do because it helps to discover this by watching them when they do it. Saunders et al (2003, 221) examines the two different types of observation: participant observation and structured observation. Participant observation is qualitative and emphasizes discovering the meanings that people attach to their actions. By contrast, structured observation is quantitative and is more concerned with the frequency of actions.

Qualitative case studies must achieve "fit" between theory, methodology, hypothesis, method, and domain in order to contribute to the literature. Fit indicates a successful conclusion of the process. A good study is the outcome of ongoing theoretical repositioning together with redefinitions of the concepts used within qualitative methodology, the development of new and discarding of old hypotheses, changes to the method, and redrawing of the boundaries of the field. (Ahrens & Chapman 2006, 827)

4. THEORETICAL BACKGROUND

In the case studies theories are used to explain observations (Ryan et al 2002, 149). Explanation often happens with reference to multiple theories (Ahrens & Chapman 2006, 823). Existing theory assist case study researcher to identify appropriate hypotheses from the case study. Case studies seek to apply theories in new contexts. The theory is likely to be refined and/ or modified and through this process the theory is generalized. Such a process could be described as theoretical generalization. (Ryan et al 2002, 149-150) There are two forms of theoretical generalization. In the first, case studies in new or different contexts are used to generalize the theory to a wider set of contexts. In the second, theory is used to extend the applicability of the case study findings to other contexts. (Ryan et al 2002, 149)

4.1 Contingency theory

Contingency theory has been an influential framework in organizational research for nearly two decades. In the broad terms contingency theory suggests that the effectiveness of organizations is a function of the fit between their structures and the environment in which they operate. (Duncan & Moores 1989, 89) Early empirical work can be characterized as testing of simple unconditional associations among variables in the contingency model. A central concept of contingent propositions is fit and it is identified at least three different conceptual approaches to fit: selection, interaction, and systems. All the accounting studies have adopted selection or interaction approaches to fit. (Duncan & Moores 1989, 90-91)

4.1.1 Contingency theory in the management control system research

Contingency-based research has a long tradition in the study of management control systems (MCS) and the recent contingency-based research has considered the relevance of strategy related issues to the design of management control systems. (Chenhall 2003, 127) Variety of contingency theories may be used to explain and predict the conditions under which particular management control

systems will be found or where they will be associated with enhanced performance. The concepts and ideas from organizational theory continue to provide a coherent and rich foundation to examine traditional and new management control systems within contemporary settings. Much can be gained in understanding the implications of contemporary elements of environment, technology and structure to the design and implementation of management control systems by considering the insights provided by early organizational theories. (Chenhall 2003, 157) The contingency-based research predicts that certain types of MCS will be more suited to particular strategies (Chenhall 2003, 150). Langfield-Smith (1997) presents an analysis of research that examines the relationship between specific aspects of MCS and strategy. He analyses empirical contingency research and findings of case study research.

4.1.2 Methodological limitations and contributions of contingency research

A criticism of contingency-based research is that it has relied on traditional, functionalist theories and has not applied more interpretive and critical views. Alternative approaches, derived from sociology literature, have been used in MCS research to provide this interpretive and critical focus. The strength of alternative approaches is that they show the potential conflict between individuals and groups and how MCS may be implicated in these struggles. Baxter and Chua (2000) provide a review of the various streams of sociology that have been used in management accounting research. An important issue is whether “alternate” theories of MCS research can be combined with traditional, functionalist models. While these paradigms have different theoretical and philosophical bases, some researchers have used contingency-based ideas to develop convergence between these approaches. Caution must be directed at any approach providing some unification between functionalist and “alternate” approaches. Literature examining MCS from various organizational, economic and psychological perspectives assume that the study of MCS is conducted within situations what can be well specified and understood. Sociological approaches use a variety of theories to understand organizational settings that are often so ill structured that regularities cannot be meaningfully represented. (Chenhall 2003, 160)

The relationship between MCS and strategy covers a broad range of perspectives and methods. In particular, in the contingency studies the integration of the available evidence is hampered by certain aspects of the research designs. (Langfield-Smith 1997, 225) Example, contingency theory led the researcher to expect that any lack of fit between an organization’s structure and its environment would undermine its effectiveness (Duncan & Moores 1989, 94). At the method level the lack of fit residuals have the potential to provide a more informative and appropriate method for analyzing contingency theory fit propositions. Duncan & Moores (1989) illustrate the application of residual analysis methods in accounting context. They report details of a study that examined the interaction of organizational structure, environment and effectiveness. The conclusion from their study was that the residual method has potential in modelling fit in future management accounting contingency theory studies. The residual method represents a development in test methods that enables the conceptual progression beyond the limited conceptualizations inherent in accounting based studies that rely upon selection approaches to fit. It permits interaction approaches to be adopted and will even facilitate movement to more complex models that are consistent with systems concepts of fit. (Duncan & Moores 1989, 101)

Some methodological limitations relating specifically to empirical research that addresses the relationship between MCS and strategy need to be considered:

Operationalizing management control systems

The variation in the number and type of controls that have been researched makes it difficult to develop a coherent body of knowledge. The important distinction between the existence and the use of controls was not acknowledged in many research studies surveyed. For control systems to support a certain strategy, it may not be sufficient for certain controls merely to exist. It can be argued that the appropriate orientation for examining controls is their use and importance to key decision makers. (Langfield-Smith 1997, 226)

Measuring effectiveness

Simons (1987) defined effectiveness as financial performance it can be argued that this is not always appropriate definition. If the measure of effectiveness is not appropriate for all the firms studied, then the results of analyses must be interpreted carefully. There are many possible performance dimensions that are critical in measuring the success of a firm, requiring a subjective approach to be taken in measuring effectiveness. (Langfield-Smith 1997, 227)

Weaknesses in operationalizing strategy

There are several weaknesses in the way that researchers operationalized the strategy. First, strategy can be measured using several variables. However few studies acknowledged the multi-dimensional nature of strategy. Second, using certain strategic typologies can potentially result in a circular research design. Third weakness is that the distinction between intended and realized strategy was not explicitly recognized in all studies. The fourth aspect is that some survey instruments did not recognize the relative nature of strategy, which may have led to inaccurate classifications of strategic types. A further criticism of methods used to operationalise strategy is an underlying assumption that managers view their organization's using the same orientation or focus adopted by the particular strategic variable of typology. The conceptualization of strategy may be useful from a researcher's viewpoint, but may have little relevance to managers who formulate and implement strategy. This conflict could affect the validity and reliability of responses. Also it is important to recognize that strategy can be an ongoing developmental process. Potentially, strategy could be measured in a number of organizations, which may all be at different stages in the strategic change process. Also, the MCS needed to support a particular strategy may only be partially developed at the time of the study as the change process may be continuous or span many years. This would clearly affect the validity and comparability of research findings. (Langfield-Smith 1997, 227)

4.2 Behavioural economics and psychology

Researchers examine that in addition of technical aspects social and political issues affect to MCS. The effects of the technical aspects of MCS in facilitating change cannot be understood without considering how the systems respond to the social context within which they operate. (Chenhall & Euske 2007, 603) Behavioral economics emphasizes what actually happens, rather than the logical conditions necessary for things to happen, to generate a strong descriptive base for economic research. Factors such as limited information processing capacity, selective perception, satisficing rather than optimizing and bounded rationality all help explain why individuals behave in ways that may be inconsistent with predictions based on assumptions of rational economic decision making. (Chenhall 2003, 159)

The area of psychology has relevance to understanding MCS has provided the basis for some research over the past 20 years. This research has attempted to identify if individual characteristics such as personality or cognitive style affect the way individuals react and respond to different aspects of MCS. It is possible that personality factors may be important moderators in the relationship between conventional organizational contextual variables and the usefulness of MCS. Concern with individual attributes can usefully be combined with organizational context by examining the compatibility between individuals and their work situation. This has been referred person-environment fit and person-organisation fit. These approaches assert that environmental of organizational factors provide explanations of behaviour based on observable events but that consideration of individuals can enhance predictions as they bring a unique interpretation to the situation. It seems likely that personality, cognitive style and issues associated with commitment, trust and organizational justice could help explain the way individuals react to information in different contextual settings, and as such can be included readily within contingency-based frameworks. (Chenhall 2003, 158)

4.3 Practice theory

Ahrens and Chapman (2007, 2) see that accounting cannot be understood simply with reference to its supposed functional properties because it is implicated in the shaping of its own context. Accounting and organisational objectives are interdependent. The emphasis on accounting as a social and not equally strategic and commercial technology has left an important gap in understanding of the interconnections between accounting and other organisational practices. (Ahrens & Chapman 2007, 3). Ahrens & Chapman (2007) introduce the practice theory in order to attempt to fill this gap. The practice theorists have been concerned to reflection the ways in which action relates to aspects of context (seen as a system political, economic, cultural or technological). When the management control is seen as practice the greater prominence is given to the construction and functioning of managerial intent and some of the ways in which they relate to the situated functionality of accounting. (Ahrens & Chapman 2007, 8-9) In the practice theory a management control system is seen as a bundle understood as management control practices plus material and technical arrangements. According to practice theory the actions are organised around practical understandings, rules and engagements. The perceived usefulness of management control practices and systems is of paramount importance for researching management control and management accounting more generally. (Ahrens & Chapman 2007, 10)

The theoretical background of this study will become clearer as the study proceeds. However the researcher thought that contingency theory, behavioral economics (and psychology) and practice theory could be useful theories. Contingency theory helps to explain the conditions under which particular management control systems will be found or the fit between certain types of MCS and strategies. The organizational theory provides foundation to examine traditional and new management control systems within contemporary settings (elements of environment, technology and structure). The social issues are important because they explain how the systems respond to the social context within which MCS operates. Behavioral economics emphasizes what really happens. Factors such as limited information processing capacity, selective perception and bounded rationality explain why individuals behave in ways that may be inconsistent with predictions based on assumptions of rational decision making. Because this study examines how managers use management accounting systems in organizations facing strategic change the behavioral economics will be in the central position to explain findings. Concern with individual variables can be combined with organizational context by examining the compatibility between individuals and their work situation (person-environment fit or person-organization fit). As Chenhall (2003) points out the personality, cognitive style and issues associated with commitment, trust and organizational

justice could help explain the way individuals react to information in different settings, and as such can be included within contingency-based framework. The practice theory could explain the way how the action in organizations relates to aspects of context. The greater prominence is given to the situated functionality of accounting and to the construction and functioning of managerial intent. In this study the practice theory is useful to explain the interconnections between accounting and other organizational practices.

5. THE DEFINITION OF CONSTRUCTS

5.1 Management control systems

In the pioneering work of Robert Anthony (1965, 17) classic definition of management control was “the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of organisation objectives”. Lowe (1971) sees that a management control system is a system of organizational information seeking and gathering, accountability and feedback designed to ensure that the enterprise adapts to changes in its substantive environment and that the work behaviour of its employees is measured by reference to a set of operational sub-goals so that the discrepancy between the two can be reconciled and corrected for. This general definition stresses the role of a management control system (MCS) as a set of control mechanisms designed to assist organisations to regulate themselves (Ashton, Hopper, Scapens 1991, 48). In their classical management accounting textbook *Cost Accounting* Horngren et al (2005, 639) gives the definition to the MCS saying that a management control system is a means of gathering and using information to aid and coordinate the process of making planning and control decisions throughout the organisation and to guide employee behaviour.

Chenhall (2003, 129) sees that the definition of MCS has evolved over the years from one focusing on the provision of more formal, financially quantifiable information to assist managerial decision making to one that embraces a much broader scope of information. This includes external information related to markets, customers, competitors, non-financial information related to production processes, predictive information and a broad array of decision support mechanisms, and informal personal and social controls. Simons (1995, 4) says that management control systems are the formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities.

Variety of control taxonomies have presented, and consider how they relate to various aspects of MCS. Conventional view (like contingency-based research) perceives MCS as passive tools providing information to assist managers. Approaches following a sociological orientation see MCS as more active, furnishing individuals with power to achieve their own ends. (Chenhall 2003, 129) Controls can be classifying as ranging from mechanistic to organic. Mechanistic controls rely on formal rules, standardized operating procedures and routines. Organic systems are more flexible, responsive, involve fewer rules and standardized procedures and tend to be richer in data. (Chenhall 2003 131-133) One classification (as part of organic and mechanistic forms of MCS) is presented by Robert Simons (1995). Following the work of Simons (Simons 1990, 1991, 1994, 1995), several studies have examined a more active role of MCS in the formulation of strategy and the implementation of strategic change (e.g. Abernethy & Brownell 1999, Bisbe & Otlely 2004, Chenhall & Langfield-Smith, 2003) Simons (1990, 1991, 1994, 1995) presented a series of cases that contribute to a theory of how senior managers can use controls to implement and develop business strategy. Simons argued that it is not the identification of controls associated with

particular strategies that are important, but the distribution of management attention among controls.

Simons (1995, 63) describes interactive controls as those that senior management choose to monitor personally. This directs attention towards strategic uncertainties and allows managers to monitor emerging threats and opportunities. The interactive use of MCS represents a positive force as MCS are used to expand opportunity seeking and learning throughout the organization. The interactive use focuses attention and forces dialogue throughout the organization by reflecting signals sent by top managers. It stimulates the development of new ideas and initiatives and guides the bottom-up emergence of strategies by focusing on strategic uncertainties. (Henri 2006, 533) Diagnostic controls are used to implement intended strategies. These controls measure critical performance variables, and their management is delegated to staff specialists. (Simons 1995, 63) The diagnostic use of MCS represents the traditional feedback role as MCS are used on an exception basis to monitor and reward the achievement of pre-established goals. Following a traditional mechanistic notion of control, a diagnostic use provides motivation and direction to achieve goals by focusing on and correcting deviations from preset standards of performance. The diagnostic use comprises the review of critical performance variables to monitor and coordinate the implementation of intended strategies. It represents a negative force for two reasons. On the one hand, diagnostic use focuses on mistakes and negative variances. On the other hand, the sign of the deviation that is derived when outputs and goals are compared is reversed in the feedback signal to adjust the process. (Henri 2006, 533)

Diagnostic and interactive controls work simultaneously but for different purposes. While diagnostic use represents a mechanistic control used to track, review and support the achievement of predictable goals, interactive use is an organic control system supporting the emergence of communication processes and the mutual adjustment of organizational actors. (Henri 2006, 533)

Although Simons (1990, 1991, 1994, 1995) framework about controls has been very popular there has been some criticism against it. Example Gray (1990) says, that Simons model under specifies the relationship between strategic uncertainties and management controls, underplays the recursive impact of management controls on strategy formulation, and ignores the potential influence of managerial characteristics on control system design.

5.2 Strategy

There is no single, universally accepted definition of strategy. The origins of the term strategy go back to ancient Greece whereby strategos signified the role of a general in command of an army. (Horngren et al 2003, 787). Significant body of literature has explored the effects of strategy on MCS and, to a lesser extent, the effects of MCS on strategy. A first line of research has emphasised the effects of strategy on MCS. (Henri 2006, 530) The concept of strategy has been generally examined at a strategic-choice level: market positioning: cost leadership versus differentiation and focus (Porter 1980, 1985); strategic pattern: prospector vs. defender (Miles & Snow 1978); strategic mission: build, hold, harvest and divest (Gupta & Govindarajan 1984) or strategic priorities: customization, quality, flexibility, etc. (e. g. Abernethy & Lillis 1995) These conceptualizations generally take strategy as a given, consider it from a content perspective and restrict its scope. (Henri 2006, 530) In these studies, MCS are considered for the most part to be strategy implementation systems and the last step in the strategic management process. This conceptualization is static and the focus is placed on such issues as the presence or absence of specific systems, their technical properties and their design. (Chapman 1997, 1998, Dent 1987)

The concept of strategy has also been examined at a strategic-choice level and, to a lesser extent, at a capabilities level. First, a number of studies have examined strategy at a strategic-choice level: strategic priorities (eg. Chenhall 2005; Marginson, 2002) and strategic change (e.g. Abernethy & Brownell, 1999; Chenhall & Langfield-Smith, 2003). Other studies refer indirectly to strategy at a capabilities level in terms of innovation or organizational learning (e. g. Bisbe & Otley 2004, Davila 2000, Kloot 1997). These conceptualizations consider strategy as being influenced by MCS, consider it from a process perspective and expand its scope to the notion of emergent strategy (Minzberg & Waters 1985). In these studies the role of MCS in the formulation of strategy is recognized as well as their continuous implication during the strategic management process. This conceptualisation of MCS follows a procession approach whereby the perspective is dynamic and the focus in on such issues as the dialogue and interaction surrounding the use of MCS. (Chapman 1997, 1998, Dent 1997)

Langfield-Smith (1997, 209) presents the three different levels in which the strategy concept is considered. The first is corporate strategy which is concerned with decisions about the types of businesses to operate in, including what businesses to acquire or divest, and how best to structure and finance the company. Business (or competitive) strategies relate to each business unit of the organization and focus on how individual strategic business units compete within their particular industries, and the way that each SBU positions itself in relation to competitors. Operational strategies address how the various functions of the organization contribute to the particular business strategy and competitiveness of the organization. According to Langfield-Smith (1997, 210) much of the research that studies the relationship between MCS and strategy focuses on business strategy.

5.3 Strategic change

Burns & Scapens (2000) analyses the change within individual organisations, i. e. the intra-organisational processes of change. They use institutional theory to develop a framework for conceptualizing rule-based behaviour and routine organizational systems and practices, but also recognizes that rules and routines can change. This framework is offered as a starting point for researchers interested in studying management accounting change as a process. The institutional framework presented by Scapens (1994) was not specifically concerned with management accounting change but Burns & Scapens (2000) extended it to explain the management accounting change. Burns & Scapens (2000, 18-21) presents three dichotomies which provide ways of classifying and distinguishing between different types of change processes. The three dichotomies (*formal and informal change, revolutionary and evolutionary change, regressive and progressive change*) are presented next.

Formal and informal change

Formal change occurs by conscious design, usually through the introduction of new rules and/or through the actions of a powerful individual or group. The successful implementation of it may require new ways of thinking. As contrast the informal change it occurs at a more tacit level, for example, as new routines adapt over time to changing operating conditions. The distinction between formal and informal change is similar to the distinction between intentional and unintentional change. The term unintentional imply that change is not specifically directed, although it may evolve out of the intended actions of the individuals who are enacting and reproducing organizational routines. Studies of formally planned changes are likely to be comparatively easy to conduct, while studies of informal processes of change are likely to be much more difficult. It seems reasonable to expect that top-down management accounting change will have its initial and most direct impact on the formal rules, but only an indirect impact on the informal processes which

underpin management accounting routines. The bottom-up change is more likely to have an impact at a tacit level and to shape informal as well as formal management accounting processes. (Burns & Scapens 2000, 18-19)

Revolutionary and evolutionary management accounting change

Revolutionary change involves a fundamental disruption to existing routines and institutions, evolutionary change is incremental with only minor disruption to existing routines and institutions. The term revolutionary is not related to the particular content of the change (i.e. the particular techniques, systems, etc.) being introduced, but rather to its potential impact on existing institutions. Recognizing the institutional context of management accounting change is essential if potential difficulties and consequences are to be anticipated. (Burns & Scapens 2000, 20)

Regressive and progressive change

Tool (1993) presents dichotomy of regressive and progressive institutional change. He distinguishes between “ceremonial” behaviour and “instrumental” behaviour. Ceremonial behaviour emerges from a value system which discriminates between human beings and preserves existing power structures. The instrumental behaviour emerges from a value system which applies the best available knowledge and technology to problems and seeks to enhance relationships. Tool (1993) adopted the term regressive change to describe behaviour which reinforces ceremonial dominance, thereby restricting institutional change and adopted the term progressive change to describe displacement of ceremonial behaviour by instrumental behaviour. Progressive change can take place, even where there is ceremonial dominance, because new technology can incite questioning of previously dominant, ceremonial values. (Burns & Scapens 2000, 20-21)

The framework outlined by Burns & Scapens (2000, 21) and particularly the ceremonial-instrumental dichotomy suggests a need to be alert to the institutional context of management accounting routines within each organization and to be prepared to question the taken-for-granted assumptions which underpin existing institutions. Such questioning offers the potential for pursuing a more pragmatic, practice-oriented mode of research.

The holistic model of change

Huy (2001) presents a holistic model of change, which focuses on both technical and behavioural issues as they evolve through time. He argues that there are four ideal types of planned change: commanding (formal structures), engineering (work processes), teaching (beliefs) and socializing (social interrelationships). Each type is described by identifying specific practices and the nature of the implementation procedures, including leadership and the pacing of change. Planned change involves combining these ideal types, deciding on the sequencing. The effectiveness of change depends on matching these ideal types to suit the context of the organization and the dispositions of individual involved in change.

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