



Understanding management accounting practices: A personal journey[☆]

Robert W. Scapens^{*}

^a *Manchester Accounting and Finance Group, Manchester Business School, Booth Street West, Manchester M15 6PB, UK*

^b *University of Groningen, Groningen, The Netherlands*

Abstract

This paper reviews the changes which have taken place in management accounting research over the last 35 years. It traces the author's personal journey as a management accounting researcher and emphasises the shift which has taken place in what it means to *understand* management accounting practices. It argues that to make sense of diversity in management accounting practices we need to understand the complex mish-mash of inter-related influences which shape practices in individual organisations. It outlines the contribution which institutional theories can make to understanding this mish-mash of complexity. In particular, it reviews the achievements of the Burns and Scapens framework (2000) for studying management accounting change and describes some of its limitations and extensions; viz., the interplay of internal and external institutions; the importance of trust in accountants; the impact of circuits of power; and the need to study the role of agency in institutional change. It concludes that research in recent years has provided a much clearer understanding of the processes which shape management accounting practices; but the challenge for the future is to use this theoretically informed understanding to provide relevant and useful insights for management accounting practitioners.

© 2005 Elsevier Ltd. All rights reserved.

Keywords: Management accounting; Practices; Change; Institutional theory; Rules and routines

[☆]This paper is a revised and extended version of a plenary address given at the 2005 Annual Conference of the British Accounting Association held at Heriot-Watt University, Edinburgh, Scotland, and was consequent on my receiving the 2004 BAA Distinguished Academic Award.

^{*} Corresponding author. Address: Manchester Accounting and Finance Group, Manchester Business School, Booth Street West, Manchester M15 6PB, UK. Tel.: +44 161 275 4020; fax: +44 161 275 4023.

E-mail address: robert.scapens@mbs.ac.uk.

Although the title of this address refers to my personal journey, it has not been a solitary one. I have worked with many people over the years, and I will mention a number of them as we proceed. In particular, I will describe the work of some of the PhD students who have been accompanying me in recent years—and who have been extending and critiquing my work. Furthermore, as my journey has been along a fairly broad, well-trodden road, this talk will reflect the broad changes in management accounting research which have taken place during my academic career.

The other point to note about my title is:—and in a sense, this is my main theme—what do we mean by understanding managing accounting practices? Different people can have different ideas in mind when they talk about ‘understanding’; and this is not just semantics. What we mean by the phrase ‘understanding management accounting practices’ has both methodological and theoretical implications. This is something I want to explore in this address.

I will start by briefly describing my personal journey: setting off in 1970, and the changes which have taken place over the following three decades. This will lead to a discussion of what I now mean by *understanding* management accounting practices. I will then mention various types of institutional theory and describe how they can be helpful in making sense of the complexity which characterises the development of management accounting practices. Next, I will outline the framework which John Burns and I developed drawing on old institutional economics (see Burns and Scapens, 2000). I will use a couple of anecdotes to illustrate some the characteristics and implications of the framework. Then, drawing on research undertaken by several of my recent PhD students, I will discuss some limitations and extensions of that framework. Finally, I will conclude by summarising the changes which have taken place in understanding management accounting practices in the course of my personal journey, and indicate the implications for case based research.

1. My journey

1.1. *Setting off*

After qualifying and working for 2 years as a chartered accountant, I joined the University of Manchester in 1970, as a P.D. Leake Teaching Fellow—funded by the Institute of Chartered Accountants in England and Wales (ICAEW). This was at a time when accounting as a university subject in the UK (especially in England¹) was still in its infancy, but beginning to grow. At that time, Bryan Carsberg was professor of accounting in Manchester. He had been appointed in 1969, and was the first accounting professor in Manchester. Previously, accounting had been taught in Manchester, but it was not considered necessary to have a professor of accounting. However, in the late 1960s and early 1970s the accountancy profession was moving towards graduate entry and as a result

¹ There had been a longer tradition of accounting in a number of Scottish universities; and there were some exceptions in England—notably at the London School of Economics.

it was becoming necessary to establish university departments of accounting. I was one of a group of professionally qualified accountants who were recruited into academe at that time.

Initially, my research was in the area of financial accounting. I was advised to do research in financial reporting because, as I was told, ‘there wasn’t much to do in management accounting’. It was believed that the interesting work had already been done. All that remained was to refine, and possibly modify for more complex situations, the many mathematical models that had been developed. There were models for most areas of management accounting and there was a widely held view that such models could solve all management accounting problems. At that time, at least in management accounting, we thought we knew everything. But now looking back, it is clear that we had only a very narrow conception of management accounting.

I will now talk briefly about some of the changes, which have occurred in management accounting research over the subsequent years. I will start by saying a little more about research in the 1970s, and then talk about the perception of a gap between theory and practice which emerged in the early 1980s. Next, I will mention some of the new perspectives that started to be used in the late 1980s and during the 1990s. I will do this by referring to my own research, but will try to give an overview of the general nature of the changes that were taking place. I will finish this part of the talk by summarising my personal journey and mentioning the nature of my current research—which I discuss in more detail later.

1.2. The 1970s

The 1970s was a time when much of the academic accounting world was thinking in terms of marginal economic analysis and quantitative models, and researchers in management accounting were adopting an economic approach to management decision making and control; with many, both simple and complex, mathematical models which were intended to prescribe what management accounting practitioners should do (for a review see Scapens, 1984). At the time, the general feeling of academics, including myself, was that all the relevant theory had been developed and we just needed to communicate it to practitioners. We believed that once practitioners became aware of the new models they would apply them in practice. So we saw the essential role of academics as one of communicating marginal economic analysis to students and practitioners; but particularly to students, as they would become the next generation of practitioners. In this way, management accounting practitioners would eventually learn how to apply the new economic models. The problem was that they never really did—I will return to this point shortly.

At that time I followed the advice I was given and I did not initially get into management accounting research. I started my research career in financial reporting and, in particular, studying inflation accounting. I used an approach from investment theory (Jorgenson, 1967; Brechling, 1975), and this led me to a concept of economic profit, which was grounded in neoclassical economics (Scapens, 1978). I became increasingly interested in management accounting; however, as my concept of economic profit had some of the characteristics of residual income (see Scapens, 1979). When I realised that this was what I

was looking at, I became interested in what had been written on the subject in the management accounting literature, and began thinking about how economic profit might be relevant in management accounting. Unfortunately, I concluded that my measure of economic profit was not practical as a management accounting technique, as it required very strong assumptions about the nature of investment behaviour; assumptions that were unlikely to hold in practice. So, I thought the concept was useful as an analytical tool, but there were specific problems that would constrain its use in practice (Scapens, 1979).

This conclusion comes back to haunt me from time to time—as my notion of economic profit is conceptually very similar to the ideas of economic value-added, which have proved popular in practice in recent years. These ideas have been very profitable for consultants. I had similar ideas 30 years ago, but dismissed them as impractical. This may have been a good thing academically, as it encouraged me into new areas (as I will describe below), but in terms of opportunities for consulting income I obviously lost out.

To summarise, in management accounting research the 1970s was an era of economic oriented mathematical models. Researchers believed that they had developed the theory and the management accounting techniques which practitioners should be using. But that was about to change, particularly in the UK. Going into the 1980s, management accounting researchers began to recognise that there was a gap between theory and practice, and that research to describe practice was urgently needed.

1.3. The early 1980s

At the beginning of the new decade, in December 1980, a conference on management accounting research was held at the Manchester Business School.² Several of the papers presented at that conference reviewed various aspects of both management accounting research and practice (see Cooper et al., 1983). Despite a general awareness of the apparent gap between theory and practice, participants at the conference recognised that researchers' knowledge of management accounting practice was severely limited and based largely on anecdotal evidence. Few researchers had systematic or in-depth knowledge of management accounting practice; either from doing research in organisations or from personal experience. Where researchers did have practical experience, it was rather dated and quite limited in scope. Generally, it was recognised that academic researchers lacked detailed knowledge of the prevailing management accounting practices, and it was agreed that they needed to know more. It was from about that time that researchers in the UK began to undertake research, first to describe, and later to explain the nature of management accounting practice. Initially, researchers conducted questionnaire surveys, next they undertook fieldwork, interviewing both managers and management accountants, and more recently conducting in-depth longitudinal case studies.

² Since that first conference there have been many others and they have evolved into what is now known as the Management Accounting Research Group that meets twice a year—in London at the LSE in April and in Birmingham at the Aston Business School in September.

So the 1980s was a time when UK researchers started studying management accounting practices (as distinct from developing normative models) and such research essentially adopted a positivist methodology. In my own research, I went from developing mathematical models of economic profit, to using those models to study management accounting practices. For example, I tried to explain why only some companies used residual income, although the textbooks at that time portrayed it as the optimal way to evaluate and monitor capital expenditure decisions. Many companies used return on investment, while others used budgets as the basis for controlling their capital expenditures. It appeared that there was a range of different management accounting practices (in the area of capital expenditure), and I wanted to understand why there was such a range of practices. I used my model of economic profit as the conceptual basis for hypothesising which type of companies would use the different accounting practices. As such, my interest was in explaining diversity of management accounting practices, and my economic model was used to provide the theoretical basis for the explanation.

Together with an American colleague, Tim Sale, I did a questionnaire study which resulted in a sample of 211 divisionalised UK companies from the *Times* 1000 and 205 divisionalised US companies from the *Fortune* 500 companies (see Scapens and Sale, 1985). Comparing the two samples, and using a variety of non-parametric techniques, including correlational analysis, factor analysis and multidimensional scaling, we investigated a number of hypotheses concerning the relationship between the use of management accounting techniques and the extent of divisional autonomy. However, we found absolutely nothing—i.e. we totally failed to locate the expected associations between the management accounting methods used in divisionalised companies and the extent of the autonomy given to the divisional managers.

We had large matrices of correlation coefficients, but very few were statistically significant. The only really significant thing about the study was the lack of significant correlations. One might have thought that, given the amount of data and the number of variables, we would have found at least some significant correlations purely by chance. But there were very few. However, the paper was published in *The Accounting Review*, which does not usually publish papers that do not support their hypotheses. One of the reviewers commented—and I think this may have persuaded the editor to publish the paper—that the hypotheses were all very ‘commonsensical’, and it seemed very surprising that they were not supported, despite the use of sophisticated statistical techniques.

We concluded the paper by noting the difficulties involved in trying to explain management accounting practices with such questionnaire studies. Our post-questionnaire interviews identified a number of issues: (1) management accounting techniques used in practice are often not the ‘ideal’ ones, which might be expected—practice is never perfect; (2) the development and use of management accounting techniques are dynamic and this is difficult to capture in cross-sectional studies; and (3) the personalities and backgrounds of key individuals can affect the choice of management accounting methods in practice.

In this research, we were using a form of contingency theory, underpinned by economic modelling, to try to explain the diversity of management accounting practices. However, the study was unable to explain the diversity of capital budgeting practices in divisionalised organisations. Nevertheless, the diversity of management accounting practices has remained the focus of my research over the subsequent years.

My fundamental research question continues to be: why do we see such a diversity of management accounting practices?

1.4. *The Late 1980s and the 1990s*

As we moved further into the 1980s and into the 1990s, a variety of theories and a number of different methodological approaches started to be used to study management accounting practices; extending the theoretical domain from economics into organisational and social theory, and with interpretive work and critical perspectives being used alongside more conventional accounting research. As such, this was a period when the nature of management accounting research broadened quite considerably.

Following my unsuccessful attempts to use positive theory and economic modelling to explain the diversity of management accounting practices, I turned to case studies and in-depth interviews to investigate the role of accounting and accountability in the organisational control of large companies. This research was funded by the Economic and Social Research Council (ESRC) and I recruited John Roberts to the project. It was John who introduced me to the structuration theory of Anthony Giddens (see 1984), which he (John) had previously used in his PhD research into the organisational control of workers in telephone call centres. In a paper in *Accounting, Organizations and Society* in 1985 (the same year as my paper with Tim Sale was published in *The Accounting Review*³), we charted the development of our thinking about what an organisational understanding of accounting practices might involve (see Roberts and Scapens, 1985). We draw a distinction between accounting systems and system of accountability—which I later modified to distinguish rules and routines (see below).

We also referred to Giddens' discussion of structures of signification (meaning), legitimation (morality) and domination (power), which I subsequently developed in management accounting papers with Norman Macintosh (Macintosh and Scapens, 1990; see also Scapens and Macintosh, 1996). These papers emphasised the importance of studying how management accounting systems develop over time and of understanding the organisational and social context in which they are embedded. In a later paper, John Roberts and I adopted a structuration theory perspective to try to understand a case of resistance to management accounting change which we had studied as part of the ESRC project (Scapens and Roberts, 1993). This case illustrated how organisational practices generally, and management accounting practices in particular, evolve out of the interplay of a disparate set of influences as well as the intentional actions of organisation members, and that understanding management accounting change requires an understanding of various organisational and historical contingencies (1993: 30).

At around the same time (i.e. the early 1990s) I was becoming increasingly concerned at the continuing use of questionnaire surveys of management accounting practices.

³ Although published in the same year, these two papers represented a major transition in my research—the research for *The Accounting Review* paper had been undertaken some 4 years earlier, but was published only in 1985 due to the inevitable delays in getting papers accepted and then published. However, the paper in *Accounting, Organizations and Society* was published much more quickly and represented our thinking in relation to the ESRC project which was undertaken in 1983–85.

These surveys, which gave only a somewhat superficial view of practices, continued to argue that there was a gap between the theory and practice of management accounting. As indicated earlier, I (and others) had written about the gap between management accounting practices and economic theory some 10 years earlier (see Scapens et al., 1984). By the 1990s, I took the view that continuing to compare management accounting practices with the textbook prescriptions of economic theory was no longer particularly helpful. Furthermore, despite what had been acknowledged in the research literature, some of these surveys still seemed to be portraying an approach based on economic theory as some sort of ‘ideal’, against which management accounting practices could be assessed. My view was (and continues to be) that we should be seeking to understand the nature of management accounting practices, rather than comparing them with the conventional prescriptions of economic theory. In my ‘Never Mind the Gap’ paper (Scapens, 1994), I argued that we should be studying management accounting practice per se, rather than comparing them to some theoretical ideal. I suggested using case study research methods and proposed that institutional economics, which challenges some of the basic assumptions of neoclassical economic theory, could provide a useful framework for studying management accounting practice.

My research using Giddens structuration theory and my emerging interest in institutional theory came together in 2000, in a paper which I published with John Burns (see Burns and Scapens, 2000). This paper started from a structuration theory perspective, but as Giddens’ approach does not incorporate historical time it is not particularly helpful for exploring the *process* of change. We argued that an approach drawing on the work on Barley and Tolbert (1997) and ‘old’ institutional economics could provide a useful framework for studying management accounting change. Our paper was underpinned by the ideas of structuration theory, and particularly Giddens’ notion of the duality of structure. However, although our original paper contained an extended discussion of structuration theory, the paper published had only limited references to Giddens’ work—at the suggestion of the reviewers! I will discuss the Burns and Scapens framework, and some extensions and limitations later. The point to highlight here is that the focus of my research is now on understanding the *processes* of management accounting change—how organisations come to have the management accounting practices that they have. Thus, my research focus has moved away from simply exploring the diversity of practices in the population, to one where I am interested in how the management accounting practices of individual organisations emerge.

1.5. 2000 and beyond

In the late 1990s, John Burns and I conducted a research project for the Chartered Institute of Management Accountants (CIMA) looking at resistance to management accounting change.⁴ The basic research question was: why have management accounting practices been slow to change despite the rapidly changing technological and organisational environment in recent decades? The project was prompted by CIMA’s

⁴ Funded jointly by CIMA and the ESRC.

concerns over the criticisms that management accounting had ‘lost its relevance’ (Johnson and Kaplan, 1987), and that the new ‘advanced’ management accounting techniques were not being widely implemented. The focus of the research was on understanding the complexities of the *processes* of management accounting change. Several longitudinal case studies were undertaken to explore management accounting change in specific organisations (see Burns et al., 2003). The Burns and Scapens framework was developed as a way of making sense of these cases.

However, the framework was offered only as a starting point for researchers interested in studying management accounting change. We recognised that it would need to be extended and refined through further case-based research. Later, I will talk about some case studies which my PhD students have undertaken using this framework and some of the limitations and extensions they have identified.

More generally, as we enter the twenty-first century, management accounting researchers are adopting a broad range of methodological and theoretical perspectives. The methodological diversity includes interpretive and critical research, alongside more traditional functionalist and positivist research; in addition, a variety of research methods continue to be used—including surveys, fieldwork and case studies—as well as quantitative work and also some analytical work; especially at the interface between finance and management accounting. There is also considerable theoretical diversity—with researchers drawing on disciplines as wide ranging as economics, organisation theory, sociology, social theory, politics, and social anthropology; and using many different theoretical approaches: economic theory, contingency theory, institutional theory, actor network theory, labour process theory, political economy, Foucault’s genealogy, Derrida’s deconstructionism, and so on (for a review see Baxter and Chua, 2003).

This broad-based, theoretically informed research has undoubtedly provided management accounting researchers with deeper insights into the nature of management accounting, but without having major impacts on practice. Some of the so-called ‘advanced’ techniques developed in the US, such as ABC and Balanced Scorecard (BSC), have certainly had an impact on practice. But much of the more theoretically informed research, which appears in the major international research journals, has had only a relatively limited impact on management accounting practice. The challenge for management accounting researchers (including myself) is to explore the implications for management accounting practices and for management accounting practitioners of these recent theoretical advances. This is not to suggest that we need to develop new fashionable techniques to compete with ABC and the like; rather I am arguing that management accounting researchers need to give more attention to exploring the practical relevance of their theoretical work. This will not be easy, and I will not provide such practical insights in this talk, but I think it is an important challenge for the future.

Before describing in more detail some recent research, which uses institutional theory to study management accounting change, I will summarise my personal journey and then say a few words about what I now mean by understanding management accounting practices.

Table 1
My personal journey

	Methodology	Theory	Practical dimensions
1970s	Modelling	Economic	What managers <i>should</i> do?
1980s	Positivism	Contingency	What <i>do</i> managers do?
1990s	Interpretivism	Structuration	Making sense of practice
2000s	Pluralism/Pragmatism	Institutional	Helping practitioners

1.6. Summary

Table 1 summarises my personal journey, but as I said earlier it also reflects the broad trends in management accounting research over the past 35 years.⁵ In the 1970s, in common with other management accounting researchers, I was using mathematical modelling grounded in economics; whereas in the 1980s my research adopted the conventional positivist methodology and drew on a contingency approach; then in the 1990s my research was more interpretive and I was using structuration theory, while others were using a broad range of different theoretical approaches, and some were doing more critical work. Today (in the 2000s) a broad range of methodological and theoretical approaches continue to be used in management accounting research. Personally, I am using institutional theory to try to understand processes of management accounting change, but I recognise the need to promote pluralism and to adopt a more pragmatic stance to try to make theoretically informed management accounting research more relevant to management accounting practitioners.

The final column in Table 1 summarises the ‘practical’ dimensions of management accounting research over the last 35 years. In the 1970s, I was seeking, along with other management accounting researchers, to develop mathematical models which could be used to tell managers and management accountants what they *should* do. Then in the 1980s, I (we) started asking what *do* managers do, while in the 1990s other management accounting researchers and I were trying to make *sense* of management accounting practice. Today, I am continuing my research into processes of management accounting change, and other researchers are seeking to gain deeper insights into various aspects of management accounting practice. But as I just mentioned, the challenge for current (and future) work is to use the theoretical perspectives which we have developed to provide insights that are relevant and helpful for practitioners. As these practical dimensions indicate, there has been a substantial change in the focus of management accounting research over the last 35 years.

In terms of methodology there has been a change from the use of mathematical models to prescribe ‘optimal practices’, through statistical generalisation to explain the diversity of observed practices, using a combination of economic reasoning and contingency theory

⁵ The dates indicated in Table 1, and in the earlier discussion, are very approximate and intended only to capture the essence of the changes which have been taking place in management accounting research over recent decades.

to do the explaining, to an approach which focuses on understanding the specific practices of individual organisations. For example, in my own research I am now interested in why specific organisations have their particular management accounting practices; in other words, why they do what they do. As such, over the years (at least since the 1980s) my research has been concerned with understanding management accounting practices. But whereas in the era of statistical/positivist research the focus was on trying to *understand*, in the sense of explaining diversity in the population; my research is now seeking to *understand* why specific organisations have their particular management accounting practices. While the earlier approach was rather static, using cross-sectional surveys, to understand diversity in the population; the more recent approach is more process-oriented, and uses longitudinal case studies, to understand how management accounting practices evolve. As such, there has been a shift in the meaning of *understanding*. Next, I would like to elaborate a little on what it now means to ‘understand management accounting practices’.

2. Understanding management accounting practices

In the early days, when I had just started doing case study research, there was one comment which a manager made that has stuck with me ever since. As I mentioned earlier, in the mid-1980s John Roberts and I were studying the role of accounting and accountability in the organisational control of large companies. In one of the companies we were studying, a large UK-based multinational, a management accountant described how practices had developed in his part of the company; a relatively small operating unit located in North Wales. He said:

‘Well it is, you see, how things evolve. I suppose in the academic world it’s all clear cut, but it isn’t really, you know. When you come down here, it’s all a hell of a big mish-mash, all inter-related influences. It’s not clear cut and logical. It looks completely illogical, but that’s how it happens. And I’m sure we’re no different from any other outfit. And you’ll go back and say ‘What a load of idiots!’ But that’s how it happens.’⁶

This brought home to me that there is great complexity and lots of ‘things going on’ in any organisation which, when looked at from the outside, may appear illogical. But it is this mish-mash of inter-related influences that shape management accounting practices, and thus in studying management accounting change we need to understand this mish-mash. Clearly, there are broad economic, social and organisational trends that affect the way in which companies and their individual practices emerge. But in addition, there will also be unique factors, relating to the specific organisation, which shape its management accounting practices. To understand these practices, we need to study the interplay of the broad systematic trends and the unique idiosyncratic factors—i.e. the mish-mash of

⁶ This comment was cited in Roberts and Scapens (1993; p. 1).

inter-related influences. Here, institutional theory can help us understand management accounting practices.

In recent years, various types of institutional theory have been used to gain insights into organisational (and management accounting) change. These include: new institutional economics (NIE), which is concerned with the structures used to govern economic transactions; new institutional sociology (NIS), which is concerned with the institutions in the organisational environment that shape organisational structures and systems; and old institutional economics (OIE), which is concerned with the institutions that shape the actions and thoughts of individual human agents.

Whereas NIE extends the traditional economic approach and applies the assumptions of economic rationality and markets to the governance of organisations, OIE starts from a rejection of the neo-classical economic core and seeks to explain the behaviour of economic agents in terms of rules, routines and institutions. NIS, however, starts by questioning why organisations look similar; and what are the pressures and processes which shape organisations? It might be helpful if I briefly outline the nature of these three types of institutional theory.

2.1. New institutional economics (NIE)

NIE uses economic reasoning to explain diversity in forms of institutional arrangements. For example, transaction cost economics seeks to explain the differences in markets and hierarchies (Williamson, 1975; see also Williamson, 1985). It adopts a rational economic approach, starting from assumptions of bounded rationality and opportunism, to explain why transactions are organised in particular ways and why firms have hierarchical structures. Others have used similar economic reasoning to explain the management control systems used in different types of organisations (see for instance, Meer-Kooistra and Vosselman, 2000; and Specklé, 2001).

Although such work can provide useful insights, I have some reservations about this type of research, and particularly about the underlying economic assumptions. Personally, I get worried about explanations of managerial behaviour, which are grounded in bounded rationality and opportunism, and particularly about the notion of *self interest with guile* (Williamson, 1985, p. 47) which underpins the assumed economic rationality. It seems to me that it was such behaviour that was behind some of the recent major business collapses; with some individuals seeking to maximise their own self interest, and using guile to circumvent the rules which normally govern accepted business behaviour. For example, managers in Enron appear to have searched for accounting techniques which could be used to engineer profits and to maximise their own interests at the expense of the shareholders (Benston and Hartgraves, 2002).⁷ Economists may argue that people do not necessarily behave in the way that is assumed in their economic models, but they assert that businesses as a whole can be assumed to act as though they did. However, constantly portraying businesses in terms of individuals maximising their own self interest is quite likely to become a self-fulfilling prophesy; especially when such behaviour is constantly depicted as the norm in accounting

⁷ See also the other papers on Enron in the Special Issue of the *Journal of Accounting and Public Policy* (Summer 2002).

courses at business schools across the US and other Western capitalist countries. But now everyone is concerned that some managers are acting as though they were part of a rational economic model—and giving little thought to the wider social and ethical issues.

Nevertheless, NIE has drawn attention to some of the economic factors that shape organisational structures, their control systems, and management accounting practices. Although the early work using TCE was more concerned with explaining the historical emergence of firms and their management accounting systems (see for example, Johnson, 1983), more recent work has attempted to use transaction cost reasoning to explain diversity in management control and accounting systems (e.g. Specklé, 2001). For example, in situations where there is uncertainty, high levels of asset specificity and frequent transactions, business relationships are likely to be conducted in a hierarchy; whereas if there is little uncertainty, few specific assets, and relatively infrequent transactions, they are likely to be conducted through the market. Between these two extremes there may be hybrid structures, such as joint ventures, strategic alliances, supply chains and so on, which provide alternative governance structures and have their own forms of control and needs for management accounting systems. Recent management accounting research has become particularly interested in studying these new organisational forms. The studies applying NIE to management control in such organisations have pointed to the need to understand the use of management accounting in lateral, as well as vertical, relationships (Vosselman, 2002; see also Meer-Kooistra and Scapens, 2004) and to combine the elements of TCE with more trust-based considerations (Meer-Kooistra and Vosselman, 2000)—I will return to the issue of trust later.

To summarise, NIE can draw attention to the economic factors which help to shape the structure of organisations and their management accounting practices. As such, it can be helpful in understanding certain aspects of the mish-mash of inter-related influences. However, economic factors are only part of these inter-related influences; we need to look beyond economics to get a fuller understanding. It is here that NIS can be helpful.

2.2. *New institutional sociology (NIS)*

As indicated earlier, NIS seeks to explain why organisations in particular fields appear to be similar. The early research which applied institutional theory to organisations was largely concerned with not-for-profit and public sector organisations, such as schools, hospitals and other governmental organisations. These early NIS theorists distinguished between technical and institutional environments, and argued that they each place different pressures on the organisation (see Meyer and Rowan, 1977). The former relate to the need to achieve technical efficiency in the operations of the organisation, whereas the latter relate to the need to embrace the rules, social norms and expectations of others outside the organisation. In this respect, organisations have to appear legitimate to their broader constituencies and stakeholders to secure the resources they need for their continued survival. To gain this legitimacy organisations have to be seen to conform to what is expected of them (DiMaggio and Powell, 1983).

Once again this approach has provided some useful insights, but it is also not without its problems. The early studies tended to dichotomise the technical environment on the one hand, and the institutional environment on the other. Such a dichotomy is, however, quite

problematic. More recent writers have recognised that there are many inter-related aspects of organisational behaviour and they can have both institutional and technical elements (Powell, 1991; see also Greenwood and Hinings, 1996). For example, the implementation of ABC may be driven by technical concerns to achieve the most appropriate allocation of overheads for economic decision making, but it may also be driven by the desire to conform to external expectations and to appear to be adopting the modern techniques which are used by other well known organisations. In actual situations, it may be very difficult to disentangle these two types of organisational conformance. Nevertheless, NIS has been very useful in drawing attention to the need to recognise the way in which organisations tend to conform to what they perceive as the expectations of their broader environment.

In explaining this conformance NIS has focussed attention on different types of isomorphism—coercive, mimetic and normative; isomorphism is the process through which one organisation tends to resemble others in the same field (DiMaggio and Powell, 1991, p. 66). Coercive isomorphism occurs due to political and regulative influences; mimetic isomorphism when organisations seek to copy the practices of other successful organisations; and normative isomorphism when the norms of society and professional bodies influence the practices of organisations. This approach to explaining organisational conformity has been used by management accounting researchers to study the ‘non-rational’ and sometimes ceremonial use of accounting information, especially in the public sector. Such research relies on another concept from NIS: viz. loose coupling. This occurs when accounting practices which are introduced to meet institutional requirements are used in a ceremonial way: i.e. separate from the control systems used to manage the technical core of the organisation (see Meyer and Rowan, 1977). Examples of the use of NIS to study management accounting practices include the work of Covaleski and Dirsmith (1983), (1988), who studied public sector budgeting and case-mix accounting in hospitals in the US (see also Covaleski et al., 1993); Modell (2001, 2003) who used NIS to study new public management in Norwegian health care and in the Swedish university sector (see also Brignall and Modell, 2000, who contrasted public sector reforms in the UK and Sweden); and Collier (2001) who studied local financial management in a British police force.

Taken together, NIE and NIS indicate the various external pressures, both economic and institutional, which can have an impact on the way organisations are structured and governed. NIE and NIS can help us understand the nature of the external pressures on organisations; but not all organisations will conform to these pressures and some may be more susceptible to certain pressures rather than to others. If we want to explain the accounting practices of individual organisations, we have to look within these organisations. In addition to the external pressures, there are internal pressures and constraints that are part of the mish-mash of inter-related influences mentioned earlier. Whereas in NIE and NIS institutions are given, and assumed to apply pressure from *outside* the organisation, OIE enables us to look more closely at institutions *within* the organisation, and to focus on the internal pressures and constraints that shape management accounting practices.⁸ Burns and Scapens (2000) used OIE to develop a framework for

⁸ It should be noted that recent work in NIS also looks at actions and pressures within organisations (see Oliver, 1991; Powell, 1991; and Greenwood and Hinings, 1996).

studying management accounting change; but before discussing that framework, I will make a few general remarks about OIE per se.

2.3. *Old institutional economics (OIE)*

If we want to understand what shapes management accounting practices in individual organisations, it is not sufficient to stay at the level of NIE and NIS. Those approaches look to the broader external environment and explore how it impinges on organisations. To get a fuller understanding of the mish-mash of inter-related influences it is essential to go inside the organisation and to study how management accounting practices are shaped within the organisation. This is the reason for my interest in studying management accounting change. I want to try to understand how the management accounting practices of individual organisations evolve. For this purpose, I have found the insights of OIE particularly helpful.

Initially, it is important to contrast old and new institutional economics. OIE starts from a position which questions some of the basic assumptions of neoclassical economics. Instead of simply assuming bounded rationality and opportunism, it seeks to explain why people appear to be opportunistic, and why we see particular types of economic behaviour. It recognises that behaviour within economic systems (and organisations) can become institutionalised: i.e. embedded in and shaped by institutions. Whilst there is no generally agreed definition of an institution, my preferred definition was set out as long ago as the 1930s in an *Encyclopaedia of the Social Sciences*: an institution is ‘a way of thought or action of some prevalence and permanence, which is embedded in the habits of a group or the customs of people’ (Hamilton, 1932; see Hodgson, 1993b).

(Old) institutional economics has its origins in the work of the early American institutionalists, such as Veblen and Commons (see Langlois, 1989), who critiqued the impact that large corporations were having on social democracy in the US at the beginning of the twentieth century. They saw economics as a process of social provision, which is subject to multiple and cumulative causation, rather a series of static equilibria. To them human beings are a cultural product, and accordingly economics requires anthropological and evolutionary dimensions. More recently, amid growing concerns about the ability of neoclassical economics to address contemporary economic problems, there has been a resurgence of interest in institutional economics, often combined with other perspectives, such as the behavioural economics of Herbert Simon (e.g. 1955, 1959) and the evolutionary economics of Nelson and Winter (see 1982).

This more recent work recognises a duality between action (human activity) and the institutions which structure that activity (cf. Giddens, 1984). It explores the way in which habits, rules and routines can structure economic activity, and how they evolve through time (Hodgson, 1993a). Adopting an OIE perspective we can study management accounting as the rules and routines which shape organisational activity; and by studying how rules and routines evolve we can better understand management accounting change. This was the motivation for the framework that John Burns and I developed in our paper in *Management Accounting Research* in 2000.

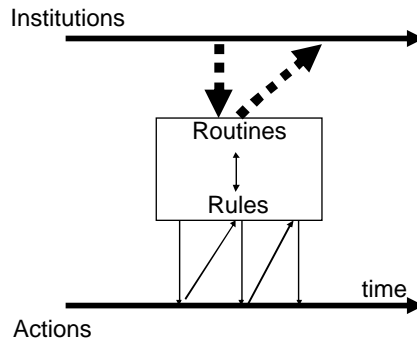


Fig. 1.

3. The Burns and Scapens framework

This framework, which is set out in Fig. 1,⁹ draws on the ideas of OIE described above.¹⁰ At the top of the figure there are the institutions which comprise the ways of thinking and the underlying assumptions that condition how people behave; and at the bottom there are the actions that are carried out over time by the individual organisational actors. Rules and routines link these actions to the institutions. The rules and routines encode the institutions: i.e. they reflect the taken-for-granted assumptions of people in the organisation. Furthermore, it is the rules and routines, which shape the actions that people take. On an ongoing basis, the actions follow the rules and routines; although these actions may lead to changes in these rules and routines. In other words, there may be changes in the rules, and especially in the routines, as people adapt to new situations. So as the organisation moves through time, the rules and routines can be modified relatively quickly, as the actors repeatedly undertake their actions. But institutions, the taken-for-granted ways of thinking, tend to be much slower to change, as they are somewhat abstracted from day-to-day activity.

As there is a direct linkage between the rules and routines and the day-to-day actions, the links are indicated by solid lines—repeated quite quickly. But at the institutional level the connection is subtler and abstract—so the link is portrayed by dotted lines (although as institutions can have very significant effects in shaping the rules and routines, these lines are quite thick). Also, as institutions can be slow to change, only one pair of lines is shown—indicating that the day-to-day actions and the emerging rules and routines may be quite slow to become institutionalised—as will be discussed below.

Central to this framework is the notion that management accounting practices are part of the organisational rules and routines, which enable organisational members to make sense of their actions and the actions of others. Furthermore, if they are widely shared and

⁹ This is a modified version of the figure in Burns and Scapens (2000, p. 9).

¹⁰ The framework per se cannot be described as an OIE framework. It is similar to, and also draws on the work of, Barley and Tolbert (1997) who come from an NIS perspective. As such there are considerable overlaps in current thinking in NIS and OIE.

underpinned by accepted meanings they reduce the potential for conflict in the organisation. Finally, together the rules and routines comprise the organisational know-how. Over time individuals will leave the organisation and new individuals will replace them. These new individuals have to learn how things are done in the organisation. Thus, the organisational know-how is not bound up in the individuals per se, they come and go, but it is comprised in the organisation's rules and routines.

3.1. *Routinisation and institutionalisation*

Fig. 1 and the above explanation provide a brief overview of the framework, but a couple of anecdotes may help to illustrate some important issues and implications. They are not related to accounting—they are simply amusing stories which appeared along with jokes and other similar stories in the magazine of the Altrincham advanced motorists.¹¹ Despite their origins, I feel these anecdotes capture the essence of the issues concerning routinisation and institutionalisation, which are at the heart of the Burns and Scapens framework. The first anecdote is about conditioning monkeys (see Box 1). It illustrates how routines can develop and then over time become taken-for-granted: i.e. institutionalised. Such institutionalised routines are dissociated from the historical circumstances which gave rise to them. They are simply the ways things are done. As individuals come and go these taken-for-granted assumptions are passed on. In the

Box 1: Conditioning monkeys

Start with a cage containing five monkeys. Inside the cage, hang a banana on a string and place a set of stairs under it. Before long a monkey goes to the stairs and starts to climb towards the banana. As soon as he touches the stairs, spray all the *other* monkeys with cold water. After a while, another monkey makes an attempt with the same result. All the other monkeys are sprayed with cold water. Pretty soon, when another monkey tries to climb the stairs, the other monkeys will try to prevent it. Now, put away the cold water. Remove one monkey from the cage and replace it with the new one. The new monkey sees the banana and wants to climb the stairs. To his surprise and horror, all the other monkeys attack him. After another attempt and attack, he knows that if he tries to climb the stairs, he will be assaulted. Next, remove another of the original five monkeys and replace it with a new one. The newcomer goes to the stairs and is attacked. The previous newcomer takes part in the punishment with enthusiasm! Likewise, replace a third monkey with the new one, then a fourth, and then a fifth. Every time the newest monkey takes to the stairs, he is attacked. Most of the monkeys that are beating him have no idea why they are not permitted to climb the stairs or why they are participating in the beating of the newest monkey. After replacing all the original monkeys, none of the remaining monkeys have ever been sprayed with cold water. Nevertheless, no monkey ever again approaches the stairs to try for the banana. Why not? Because as far as they know that's what has always been done around here.

¹¹ I suspect they have appeared in many other similar places—this type of anecdote seems to be very widely circulated.

anecdote, none of the later monkeys were ever sprayed with water; they just know that you do not let anyone go up those steps. Institutionalisation is an interesting concept and one that is relevant, not just to monkeys, but also to businesses. The punch-line of the story was: and that, my friends, is how company policy begins.

Thus, institutions are the routines which have become dissociated from their historical roots—i.e. over time they have become taken-for-granted. This emphasises the role of history and recognises that how we behave is constructed over time. Although institutions are dissociated from their historical antecedents, it does not mean that history is unimportant: in understanding current behaviour history is very important. Change is likely to be evolutionary, and *path dependent*, as the existing routines are likely to create inertia which can limit the possibilities for change. This leads us to the notion of lock-in, which has been explored by a number of writers in OIE.

3.2. Lock-in-history is important

Lock-in occurs when current actions are constrained by past actions; here another anecdote could be helpful. Again it is not an accounting example: it relates to the building of the Space Shuttle (see [Box 2](#)).

This rather lengthy story (and long history) provides an excellent illustration of how decisions and choices made in the past can influence what we do today. This may not represent an absolute constraint—in the sense that nothing else is possible. For instance, the designers of the space shuttle could have found other ways of transporting the SRBs, or

Box 2: Building the Shuttle

When you see a Space Shuttle sitting on its launch pad there are two big booster rockets attached to the sides of the main fuel tank. These are solid rocket boosters (SRBs). They are made by Thiokol at its factory in Utah. The engineers who designed these SRBs would have preferred to have made them a bit fatter; but they were constrained due to the size of two horses' backsides in Imperial Rome. What does the size of horses backsides in Imperial Rome have to do with booster rockets? Two horses were used to pull Roman war chariots. As the Roman army spread across Europe (including England) they built the first roads; and these roads have been used ever since. These Roman war chariots made ruts in the roads. Since the chariots were made for Imperial Rome, they were all alike in the matter of wheel spacing. Consequently, the ruts in English roads had a fairly standard spacing. The builders of other wagons continued to use the same wheel spacing because if they tried to use any other spacing the wagon wheels would break on some of the old Roman roads. So, throughout the mediaeval period this wheel spacing was used. When, during the Industrial Revolution, trucks had to be built for the new railways, the old wagon jigs and tools were used and this meant that the new trucks had the same wheel spacing. This became the standard gauge for railways: 4 feet 8½ inches. And when English expatriates built the US railroads they continued to use this gauge. Now we come back to the SRBs. They had to be shipped by rail from the factory to the launch site. The railway happened to run through a tunnel in the mountains. The SRBs had to fit through this tunnel. The tunnel is slightly wider than the railway track, and the track as we know is about as wide as two horses backsides.

they could have re-excavated the railway tunnels and made them bigger. But these options would have involved substantial additional costs. So, specific options today may be limited by previous actions; certain options may be just too costly or too difficult because of actions taken in the past. Another example used in the economics literature is the QWERTY typewriter (David, 1985). Attempts to introduce alternative keyboards, which would be more suitable for the computer age, have proved unsuccessful because of the problems of retraining everyone who has become familiar with the QWERTY keyboard that was designed in the era of manual typewriters. As a result, where we find ourselves today, and what we can feasibly do now, can be (and often is) constrained by where we have come from in the past. As a result past decisions can be important, as they can lock us into particular courses of action.

3.3. Evolution and revolution

As the above anecdote illustrates, history is important. Hence, we can think of accounting and other organisational practices as essentially evolutionary. But this does not mean that revolutionary change is not possible. One of my PhD students, Cristiano Busco, studied the acquisition in 1994 of an Italian company, Nuovo Pignone (NP), by the US multinational, General Electric (GE) (Busco, 2003; see also Busco et al., 2002, 2006). NP was a very bureaucratic Italian company, part of a State-owned group, called ENI; it was sold to GE as part of the Italian government's policy of privatisation. A couple of years earlier, 20 of ENI's top executives, including its chairman, had been arrested for corruption; and the chairman later committed suicide in prison. So when GE acquired NP, it was clear to everyone that there were going to be major changes. GE is renowned for its financially-orientated, numbers-driven approach to management, which emphasises both integrity and cash generation. But NP had little history of financial management. In the past, it had had a typical public sector approach to management, with little attention given to cash generation and management by financial numbers. However, within about three years NP had been integrated into the GE world-wide organisation and was being managed in the 'GE Way'. This could be considered to be a quite revolutionary change.

The experience of NP suggests that revolutionary change is possible. In that case, there was widespread recognition within the company that, following the acquisition by GE, things were going to be very different. It was accepted that the existing ways of doing and thinking in the company were going to have to change. It was recognised (although not necessarily in these terms) that the prevailing institutions (the taken-for-granted ways of thinking) would not be acceptable to GE. Thus, there was a collective mindset that change would take place. As such, although everyone was very anxious, they recognised that change was inevitable and they looked for ways of coping with it.

Reorganisation of the finance function helped in a practical way to meet the demands for financial information which GE imposed on NP—new finance managers were introduced and extensive training was given. But one of the things which appeared particularly important in enabling existing managers to cope with the demands of the GE Way was the introduction of Six Sigma; a quality improvement programme. The term Six Sigma is taken from statistics; 95% of observations are contained within two standard

errors (two sigma) of the mean of a normal distribution. With three standard errors (three sigma) there are 99.8% of the observations—an error rate of 2 per 1000; while at six sigma the error rate of 3.4 per million—virtually perfect. The Six Sigma programme, which was introduced in NP soon after its acquisition by GE, is concerned with achieving such high levels of quality.

Although administratively NP was a very bureaucratic organisation, in engineering terms it was generally recognised as being top class. The quality of its products was acknowledged in international markets. This was why GE wanted to acquire it; in engineering terms NP had good technology and good products, and as such it was a potential competitor of GE. Thus, the Six Sigma programme was compatible with, and reinforced, the prevailing ways of thinking within NP. It built on to their ‘quality-oriented’ view of the world. But one of the essential elements in the Six Sigma programme is that all quality improvement projects have to be expressed in quantitative terms and their financial consequences evaluated. Then the outcomes of the projects can be monitored and evaluated to demonstrate both the improvement in quality and the financial gains arising there from. Thus, Six Sigma brought the techniques of financial measurement and a financial orientation into NP; although such things were new to the organisation, they were expressed in terms which everyone understood—i.e. in terms of quality. Thus, Six Sigma linked the changes taking place in NP to the prevailing ways of thinking and doing (i.e. the prevailing institutions).

4. Stability and change

In the case of NP, we can see both evolution and revolution. There was a quite revolutionary change, but within it there were also evolutionary processes building on the existing quality-oriented ways of thinking. Thus, there were certain elements of stability within the process of change. So it is important not to regard stability and change as mutually exclusive—there can be elements of stability within change; and change may be necessary if things are to remain stable.¹² Stability and change were also features of another study; again by one of my PhD students. Siti-Nabiha Abdul-Khalid conducted a case study of a South East Asian oil company (Siti-Nabiha, 2000; Siti-Nabiha and Scapens, 2005). This company introduced value-based management in the late 1990s. The case study focused on the division responsible for the production and transmission of natural gas. The division was very profitable and a considerable cash generator, as it held a monopoly position in an expanding market. Its main constraint was the capacity of the transmission pipelines; consequently, the division’s three main objectives were safety, reliability and efficiency—with efficiency, especially in cost terms, a distant third. It produced budgets and financial reports, but they played only a minor role in management control, which focussed instead on maximising capacity usage. Thus, although budgets

¹² In Burns and Scapens (2000) we referred to an Italian novel by Giuseppe di Lampedusa, in which there is a famous quote: ‘If we want things to stay as they are, things will have to change.’ (Lampedusa, 1958 [1996, p. 21]).

were produced they had a largely ceremonial role. Initially, value-based management reports were also produced in a ceremonial way. So everything remained relatively stable.

Value-based management was an initiative of senior management, which was imposed on the gas division. It was one of a number of management initiatives that had been promoted in the preceding years; seemingly to demonstrate that the company was comparable to and could compete with the multinational oil companies. But there was little change within the gas division. Although it introduced the key performance indicators (KPIs) required for value-based management, they were not used for management purposes. However, not implementing the new system was not considered an option, as it was imposed by corporate headquarters. The gas division simply regarded it as something that had to be done; but not something that was needed to manage the division. Eventually, the preparation of the KPIs was delegated to the General Manager's secretary, who communicated the information directly to headquarters.

Thus, initially this appeared to be a case of stability and resistance to change—with the imposed new system being implemented ceremonially, and having no impact on the processes of management or the thinking of managers. However, over the following three to four years, some of the ideas of value-based management started to be used in the division; but not in the way that the corporate headquarters had intended. Managers in the gas division began to develop their own KPIs, which they used for their own purposes; to support their own view of the division's performance. As such, they adapted value-based management to achieve the objectives that they had for their organisation. This was quite different to the intentions of the senior managers at headquarters. They had introduced value-based management to emphasise shareholder value and the need to cut costs and generate cash. In the gas division, however, the emerging system of KPIs had a more production orientation. Although there were some financial and cost-based KPIs, the primary focus of the emerging system was on issues of production and transmission reliability and safety. Thus, despite the apparent stability and resistance to the new system imposed by headquarters, there was change; but not the change that the system designers had expected. As such, there was both stability and change.

4.1. Summary: achievements

To summarise, the Burns and Scapens framework emphasises that management accounting change is a continuous process and it draws attention to the relationship between actions, rules and routines, and the underlying taken-for-granted assumptions in the organisation. Whereas NIS takes institutions as given, and outside the organisation, the Burns and Scapens framework is concerned with internal institutions; how they emerge and how they shape current actions—including processes of change. This notion of internal institutions has certain similarities with the concept of corporate culture in the organisation literature (see Busco et al., 2002). The recognition that existing ways of thinking within an organisation can have an important influence on processes of management accounting change has implications for the management of change (Burns et al., 2003). Attempts to introduce new management accounting systems and techniques, without careful consideration of the prevailing institutions within the organisation, is likely to encounter resistance. Furthermore, the prevailing institutions are likely to shape

the character and content of the change process. This was referred to above as path dependency, which can lead to organisations becoming locked-in to certain courses of action; as in the booster rockets for the space shuttle.

The notion of management accounting change as a continuous process, rather than a discrete movement from one position to another, has implications for what we mean by successful implementation. The introduction of value-based management in the gas division of the South East Asian oil company mentioned above might be considered successful as the instructions of headquarters to implement value-based management were followed; VBM was successfully implemented—but only ceremonially. The new system did not have an impact on ways of thinking within the gas division; as such VBM was unsuccessful in introducing a culture of shareholder value. However, a new system of KPIs was eventually implemented and used within the gas division. So there was management accounting change; but not what the designers of the VBM system at corporate headquarters had in mind. Thus, in assessing the success of a management accounting change great care has to be taken; the perspectives of the various groups in the organisation have to be considered (cf. Malmi, 1997). Furthermore, as change is an ongoing process, something that is considered successful/unsuccessful at one time may evolve into something else as time proceeds. Thus, management accounting change has to be seen as a complex ongoing evolutionary process; but as the Nuovo Pignone case illustrated, the change can have quite revolutionary dimensions if the prevailing ways of thinking in the organisation are challenged. Nevertheless, even in the NP case there was stability in the production orientation of the business.

The Burns and Scapens framework, set out in Fig. 1, provides a useful basis for studying such stability and change in management accounting practices. However, this framework has been used largely to study stability and resistance to change, and rather less to study institutional change (the case of Nuovo Pignone is an exception). Also, as the framework focuses on institutions within the organisation, it gives less attention to the external institutions (which are the focus of NIS). However, when John Burns and I developed our framework, we explicitly recognised that there are both internal and external influences on management accounting practices (2000, p. 12). In our paper, we focussed on the internal institutions, as other researchers (using NIS) were exploring the nature and impact of external institutions, while little attention had been given to the internal institutions. Nevertheless, in any study of management accounting change it is important to recognise that external institutions can be important in shaping management accounting practices. In addition, there are other issues, not explicitly captured in the Burns and Scapens framework, which have been explored in the work of my PhD students. In particular, issues of trust, power and agency have been identified as important in understanding management accounting practices.

5. Extensions and limitations

In this section, I will describe the work of some recent PhD students who have examined management accounting change in different countries, using the Burns and Scapens framework. I will start with a study, which explored the interaction of external

and internal institutions in shaping management accounting practices. This study identified trust as one of the issues which needs to be considered in studying management accounting change. The next study will look more explicitly at issues of trust—using the case study of Nuovo Pignone mentioned earlier. I will then turn to issues of power. John Burns discussed some of these issues in his 2001 paper in *Accounting, Auditing and Accountability Journal*, drawing on insights from the Burns and Scapens framework. Here, I will refer to a study which also explored power, but in so doing identified an important limitation of the Burns and Scapens framework. Finally, I will outline some current work which focuses on issues of agency and processes of institutionalisation. This is an area which has largely been overlooked in recent studies of management accounting change.

5.1. *External and internal institutions*

One of my PhD students, Nor Aziah Abu Kasim, studied a public utility in Malaysia which was going through a process of massive organisational change (see [Nor-Aziah, 2004a,b](#)). Under pressure from the government, it had first to commercialise, then corporatise, and finally quite recently it was privatised. The study focussed primarily on the period of corporatisation, and explored the internal tensions created because of conflict between the internal and external institutions. There were inescapable external pressures and these had major impacts within the organisation, and led to serious internal conflicts that revolved around a lack of trust in the accountants.

A major problem in the process of corporatisation was the introduction of new accounting systems, including systems of budgetary control. But the operating managers had little trust in the accountants. Previously, when the organisation was a government department there had been no significant role for accountants. However, when it was commercialised it had become necessary to produce financial accounts, and a new cadre of accountants had been employed; but they were largely new graduates with little commercial experience. As a result, these accountants had relatively low status in the organisation, and were not perceived as financial experts—rather they were seen as unnecessary meddlers in the day-to-day operations of the business. Furthermore, in setting up the new system to produce the financial accounts during the process of commercialisation, the accountants had deliberately distanced themselves from the day-to-day operations of the business, as they did not trust the operating managers to provide them with reliable information. Consequently, the new financial accounting system was quite separate from the operations of the business.

One of the external institutional pressures on the organisation came from the regulator who was calling for high levels of service delivery, and this conflicted with the pressures from managers at head office who were calling for cost reductions. The regulator had a major impact, however, which was enhanced by political considerations; such as criticisms from politicians when service levels were not maintained. These external institutions created problems for the operating managers and they instituted a policy of completing each day's work by the end of that day; thereby leaving no outstanding work on the 'floor'—this was known as the clear floor policy. The manager at each location was responsible for executing the local clear floor policy, and this represented each manager's key target. As a

result, ways of working were developed that sometimes involved overtime working, and this inevitably had cost consequences. But the operating managers were not unduly concerned about costs and resented the accountants' attempts to hold them accountable for their costs. For them, the accountants got in the way of the clear floor policy.

Consequently, the operating managers saw the accountants as outsiders with little knowledge or understanding of the business, and in whom they had little trust. This meant that the accountants and their accounting systems were treated with distrust when it came to the introduction of budgetary control during the corporatisation process. This notion of trust (and distrust) in accounting systems and in accountants is very interesting. Although the concept of trust has been well researched in the organisational literature, it is relatively under-researched in the management accounting literature. The discussion of trust which is in the accounting literature has primarily focussed on new organisational forms (the hybrid structures mentioned earlier—e.g. see Meer-Kooistra and Vosselman, 2000; Langfield-Smith and Smith, 2003), although there are some other studies of accounting for trust (see Tomkins, 2001; Johansson and Baldvinsdottir, 2003). This seems a particularly fruitful direction in which to develop thinking on management accounting change. I will return to the concept of trust in a moment.

An important conclusion of this Malaysian case study is that, although the NIS literature tends to portray loose coupling as an organisational response to external pressures, it can also be the outcome of tensions within the organisation as the external pressures generate internal conflict. In this case, the lack of trust in the accountants caused the managers to distance themselves from the use of accounting. Here, the loose coupling was as much a consequence of the lack of trust in accountants, as it was an organisational response to protect the technical core of the organisation from the demands of the external institutions. Thus, there were interactions between the internal and external institutions, which *together* were important in shaping the management accounting practices of this Malaysian organisation.

5.2. Trust

Although this research in Malaysia focussed on the linkages between internal and external institutions, it identified *trust* as an important issue. The research in Nuovo Pignone, mentioned earlier, also explored the issue of trust (Busco, 2003; see also Busco et al., 2002, Busco et al., 2006). But in that case the role of trust was very different. Whereas there was a lack of trust in accountants in the Malaysian study just mentioned, in the NP case trust in accountants did emerge and accounting came to be seen as an 'expert system'. Within NP managers and others in the company recognised that accounting is a pervasive feature within GE, and more specifically they perceived accounting as something that modern corporations do. It is a reflection of modernity—in Giddens sense of the term (1990). Giddens argues that expert systems are a feature of modernity; we all have to trust expert systems and to put faith in experts. For example, when we travel, say by aeroplane, we put our faith, indeed our lives, in the hands of a vast array of expert systems and the experts who design and implement those systems. We trust both the systems and those individuals. If we did not have trust in expert systems modernity would not be possible.

Following its acquisition by GE, people in NP faced a crisis and they did not know what was going to happen. They had considerable anxiety about the future and what the GE acquisition would mean for NP and for them individually. However, GE has a well-developed and extensive programme of integration for its acquisitions. In NP a massive amount of training was provided in all aspects of the GE Way. In relation to accounting, a new cadre of well qualified finance managers were appointed to work alongside and to support the operational managers. These finance managers were perceived as the people who could help and support managers; they were recognised as experts who could deal with the accounting and financial problems that had to be faced. Over time, as they continued to provide solutions to these problems and to enable managers to meet the demands placed on them by GE, trust was built in the accounting systems and in the accountants who came to be seen as trusted access points to these expert systems.

So, whereas in the previous Malaysian case there was a lack of trust in accountants and this led to resistance to new accounting systems, in the NP case it was the building of trust which facilitated the process of change and the introduction of new accounting systems. Thus, trust in accounting and in accountants would appear to be important in the shaping of management accounting practices and consequently trust is an issue which needs to be explored in studying management accounting change.

5.3. Power

The third PhD study I want to mention focuses on the issue of power. This study is particularly relevant here, as it points to a limitation of the Burns and Scapens framework. Earlier, I portrayed institutions as taken-for-granted ways of thinking and doing: i.e. assumptions which underpin day-to-day activity, and which can be traced back to past actions and choices, but which have become dissociated from their historical antecedents. João Ribeiro studied a Portuguese company that was introducing an enterprise resource planning (ERP) system (Ribeiro, 2003; Ribeiro and Scapens, 2004). Although this research started from the perspective of the Burns and Scapens framework, it questioned the notion that taken-for-granted assumptions are essentially below the surface at a cognitive level. In this Portuguese company there were severe constraints on how people behaved; and lots of institutionalised behaviour. But the constraints were not at a cognitive level. The assumptions about how to behave were not below the surface; in some taken-for-granted fashion. Rather, they were quite explicit and very much out in the open; everybody knew what they were doing, and more importantly they knew why.

The company was very large public company; but it was run by a powerful family. The senior member of the family (referred to as the Group Leader¹³) had placed family members and other confidants into key positions throughout the company, so he could control what was happening in the business. As a result, the rules and routines in the organisation were held in place, not by taken-for-granted assumptions, but by circuits of power (Clegg, 1989). This questions the notion that rules and routines are underpinned by institutions that are largely unquestioned assumptions, located at a cognitive level—i.e.

¹³ This name was made-up by João Ribeiro.

below the surface of everyday discourse and dissociated from their historical origins. In this case, the rules and routines were held in place by the powerful position of the Group Leader—a position which was explicitly acknowledged, but not openly challenged; although it was widely discussed. Thus, attempts to introduce new systems, which challenged existing rules and routines, were caught up in a power struggle.

The case study focussed on the introduction of an ERP system, which was part of an attempt to introduce greater management control over the production activities of a particular segment of the business. However, the production manager of this segment was a confidant of the Group Leader, and was initially able to resist the attempts to make his production activities transparent and more financially accountable. The study followed the strategic moves of the various actors as they sought, on the one side, to bring about management accounting change and, on the other, to resist it.

The case illustrates that rules and routines can be kept in place by the explicit use of power, as well as by taken-for-granted assumptions. It also explored the ways in which the organisational actors coped with this situation, and the strategic moves they were able to make in order to overcome the resistance of powerful people at different points in the organisation. Thus, in this case it was important to study the role of the individual actors and, particularly, those actors who were in a position to challenge the existing circuits of power. In this study, João Ribeiro combined insights from actor network theory and the circuits of power to study the strategic actions of the various actors in this Portuguese company. As such, the study identified an important limitation of the Burns and Scapens framework. However, it does not necessarily mean the framework does not have its uses, but it does indicate that it is necessary for management accounting researchers to be aware of the circuits of power.

5.4. Agency

This brings me on to the role of agency. As I mentioned earlier, the Burns and Scapens framework has been useful in trying to understand stability; why accounting systems are slow to change; why there is resistance to change; and how institutions shape rules and routines. But to date, it has been rather less useful (or just less used) in studying how institutional change comes about. This is a particularly difficult issue for institutional theory. If the actions of organisational actors are constrained by institutions, i.e. their taken for granted assumptions, how do they come to recognise the need to change, and how do they recognise the opportunities and alternatives for change? Referring to the work of Barley and Tolbert (which, as indicated earlier, is similar to the Burns and Scapens framework), Seo and Creed (2002) pointed out that an important theoretical dilemma is left unresolved: when and how do actors actually decide to revise their rules and routines, if their actions and thoughts are constrained by existing institutions?

In the Nuovo Pignone case, there was a massive external impetus for change—the acquisition of NP by GE—and this led everyone in the organisation to see change as inevitable. But can change come from within the organisation? Such change did eventually take place in the Portuguese company researched by João Ribeiro. But in that case the existing rules and routines were held in place, not by taken-for-granted assumptions, but by circuits of power. They were not below the surface, at a cognitive

level; rather they were explicit, although they could not be overtly challenged. Nevertheless, various strategic moves were taken by individual actors as they tried to overcome resistance to the new ERP system.

So the question remains. Where existing rules and routines are underpinned by taken-for-granted ways of thinking, how do actors come to recognise that they need to change those ways of thinking? This is an interesting and important topic on which one of my PhD students in the Netherlands, Martijn van der Steen at the University of Groningen, is currently working. He is studying how actors within a Dutch bank came to recognise cues and issues which prompted them to change the way they think about the activities of their bank. He is exploring the way in which cognitive processes of cue recognition interact with scripted and unscripted behaviours to bring issues, such as the need for greater accountability, to the surface, thereby making them more likely to prompt change. Such work has great potential to help our understanding of processes of institutional change.

Seo and Creed (2002) point out that there can be various types of contradictions within apparently stable and long standing institutions and, drawing on Benson (1977), they explore the linkages between such institutional contradictions and human praxis. These institutional contradictions can contain the seeds of institutional change. Seo and Creed point to the role of change agents and intellectual elites in bringing about institutional change. These are individuals or groups who can mobilise wider (including external) institutional logics and meanings to create an awareness of institutional contradictions and, thereby, define a new organisation reality that will help other organisational actors to recognise the need for institutional change. One of my Manchester PhD students, Chun Lei Yang, is studying such a change agent in a Chinese social services agency, which is having to cope with contradictory pressures for budgetary reform. This work is exploiting the ideas of dialectics, which informed Benson's work; but placing it within a Chinese perspective on dialectics. This research also has considerable potential to extend our understanding of institutional change.

These two pieces of ongoing PhD research indicate ways in which it is possible to study the question raised a few moments ago: If existing rules and routines are underpinned by taken-for-granted ways of thinking, how do actors come to recognise that they need to change those ways of thinking? This is an important, but to date, relatively neglected area. Institutional approaches, such as the Burns and Scapens framework, have been useful in studying resistance to change, but until recently little explicit attention has been given to the role of agency. But this is beginning to change; we are now starting to learn how institutional change can come about as a result of external pressures, external and internal cues, and institutional contradictions.

5.5. Implications

When John Burns and I developed our framework we acknowledged that it was just a starting point and would need to be developed and extended through further research. The recent research of my PhD students has added important new insights. It has emphasised and explored the interactions between internal and external institutions; drawn attention to the importance of trust in processes of change; critiqued the notion that rules and routines are held in place by taken-for-granted assumptions and pointed out that they can also be

underpinned by circuits of power; and finally they have recognised the importance of studying the role of agency in processes of institutional change.

Together these studies are giving us deeper insights into processes of management accounting change, and I now believe I have a much clearer understanding of why there is diversity in management accounting practices and how the management accounting practices of individual organisations evolve. At one level there are broad systematic pressures shaping management accounting practices; these pressures come from both economic considerations and legitimacy considerations (as explained by NIE and NIS). As organisations seek to be technically efficient, various economic pressures shape the nature of their management accounting practices; but they are also shaped by their attempts to conform to the expectations of their various stakeholders. But in addition to these external pressures, there are internal pressures for and constraints on management accounting practices. Management accounting change in organisations has to be seen as an evolutionary, path dependent process in which existing ways of thinking (institutions), circuits of power and trust in accountants can all have an impact on the way in which the actors within the organisation respond to external institutional and economic pressures. It is this complex ‘mish-mash’ of inter-related influences which shapes management accounting practices and explains the diversity we see in the practices of individual companies.

6. Summary

To finish, I would like to summarise my personal journey trying to understand management accounting practices. From a starting point at which I was working with mathematical models and seeking to explore the extent to which they could be used to explain the diversity of practices in the population, I have moved to a position where I am studying the management accounting practices of individual organisations and seeking to explain how they are shaped and how they change (or are resistant to change). In the course of this journey there has been a change in the meaning of ‘understanding’; from explaining the diversity of practices in a population, to making sense of the practices in individual companies. This change is reflected in the shift in my research methods—from quantitative survey work to qualitative case studies.

In survey research, the aim is to explain diversity in the population: i.e. the extent to which the diversity of accounting practices can be explained by certain variables which are hypothesised to have some theoretical relevance. But in my case study research, the purpose is to understand how accounting practices which are in use have emerged in specific organisations. For this purpose, the organisations do not have to be representative of some population; simply organisations in which management accounting practices are changing. I want to understand the processes through which these practices change, and how they are shaped by the broad external influences as well as the systematic and more idiosyncratic internal influences. By focussing on the internal influences, it is possible to explore how institutionalised ways of thinking and existing rules and routines shape management accounting change. However, it is also necessary to look at issues of trust,

power and agency. By so doing, we can better understand the mish-mash of inter-related influences through which management accounting practices evolve.

From the 1970s, when the mathematical economic models were supposed to tell practitioners how to do their management accounting, and the 1980s when management researchers began to realise that we had little real understanding of management accounting practice, to today when we have a much better understanding of the complexity of the processes which shape management accounting practices, we have come a long way. But it has taken a long time; and the research has *followed* practice—with researchers seeking to understand and theorise what practitioners do and how practices evolve. The challenge for the future is to use this theoretically informed understanding to provide insights which are relevant and useful for practitioners; for management accounting research to have more of an *impact* on practice.

References

- Barley, S.R., Tolbert, P.S., 1997. Institutionalization and structuration: studying the links between action and institution. *Organization Studies* 18 (1), 93–117.
- Baxter, J., Chua, W.F., 2003. Alternative management accounting research—whence and wither. *Accounting Organizations and Society* 28 (2/3), 97–126.
- Benson, J.K., 1977. Organizations: a dialectical view. *Administrative Science Quarterly* 22 (1), 1–21.
- Benston, G.J., Hartgraves, A.L., 2002. Enron: what happened and what can we learn from it. *Journal of Accounting and Public Policy* 21 (2), 105–127.
- Brechling, F., 1975. *Investment and Employment Decisions*. University of Manchester Press, Manchester.
- Brignall, T.J., Modell, S., 2000. An institutional perspective on performance measurement and management in the 'new public sector'. *Management Accounting Research* 11 (3), 281–306.
- Burns, J., Scapens, R.E., 2000. Conceptualizing management accounting change: an institutional framework. *Management Accounting Research* 11 (1), 3–25.
- Burns, J., Ezzamel, M., Scapens, R., 2003. *The Challenge of Management Accounting Change: Behavioural and Cultural Aspects of Change Management*. CIMA Publishing/Elsevier, London/Oxford.
- Busco, C., 2003. The role of performance measurement systems within processes of (un)learning and change, Unpublished PhD thesis, University of Manchester.
- Busco, C., Riccaboni, A., Scapens, R.W., 2002. When culture matters: processes of organizational learning and transformation. *Reflections: The SOL Journal* 4 (1), 43–52.
- Busco, C., Riccaboni, A., Scapens, R.W., 2006. Trust for accounting and accounting for trust. *Management Accounting Research* 17(1), forthcoming, doi:10.1016/j.mar.2005.08.001.
- Clegg, S.R., 1989. *Frameworks of Power*. Sage Publishing, London.
- Collier, P.M., 2001. The power of accounting: a field study of local financial management in a police force. *Management Accounting Research* 12 (4), 448–465.
- Cooper, D., Scapens, R., Anold, J., 1983. *Management Accounting Research and Practice*, Institute of Cost and Management Accountants. London.
- Covaleski, M.A., Dirsmith, M.W., 1983. Budgets as a means of control and loose coupling. *Accounting Organizations and Society* 8 (4), 323–340.
- Covaleski, M.A., Dirsmith, M.W., 1988. The use of budgetary symbols in the political arena: a historically informed case study. *Accounting Organizations and Society* 13 (1), 1–24.
- Covaleski, M.A., Dirsmith, M.W., Michelman, J.E., 1993. An institutional theory perspective on the DRG framework, case-mix accounting systems and health care organizations. *Accounting Organizations and Society* 18 (1), 65–80.
- David, P.A., 1985. Clio and the economics of QWERTY. *American Economic Review* 75 (2), 332–337.

- DiMaggio, P.J., Powell, W., 1983. The iron cage revisited: institutional isomorphism in organizational fields. *American Sociological Review* 48 (2), 147–160.
- DiMaggio, P.J., Powell, W., 1991. The iron cage revisited: institutional isomorphism and collective rationality in organisational fields. In: Powell, W.W., DiMaggio, P.J. (Eds.), *The New Institutionalism in Organizational Analysis*. University of Chicago Press, Chicago, pp. 63–82.
- Giddens, A., 1984. *The Constitution of Society*. Polity Press, Cambridge.
- Greenwood, R., Hinings, C.R., 1996. Understanding radical organizational change: bringing together the old and new institutionalism. *Academy of Management Review* 21 (4), 1022–1054.
- Hamilton, W.H., 1932. In: Seligman, E.R.A., Johnson, A. (Eds.), *Institution Encyclopaedia of Social Science*, vol. 73.4, pp. 560–595.
- Hodgson, G.M., 1993a. *Economics and Evolution*. Polity Press, Cambridge.
- Hodgson, G.M., 1993b. Introduction. In *The Economics of Institutions*. Edward Elgar, Aldershot, xi–xx.
- Johansson, I-L., Baldvinsdottir, G., 2003. Accounting for trust: some empirical evidence. *Management Accounting Research* 14 (3), 219–234.
- Johnson, H.T., 1983. The search for gains in markets and firms: a review of the historical emergence of management accounting systems. *Accounting, Organizations and Society* 8 (2/3), 139–146.
- Johnson, H.T., Kaplan, R.S., 1987. *Relevance Lost: The Rise and Fall of Management Accounting*. Harvard Business School Press, Boston, MA.
- Jorgenson, D., 1967. Theory of investment behavior. In: *Determinants of Investment Behavior*. Universities National Bureau Conference Series No 18, 129–55.
- Lampedusa, G.T. di, 1958. *The Leopard* English Translation, 1996. Harvill Press, London.
- Langfield-Smith, K., Smith, D., 2003. Management control systems and trust in outsourcing relationships. *Management Accounting Research* 14 (3), 281–307.
- Langlois, R.N., 1989. What is wrong with old institutional economics (and what is still wrong with the new)? *Review of Political Economy* 4 (1), 270–298.
- Macintosh, N.B., Scapens, R.W., 1990. Structuration theory in management accounting. *Accounting, Organizations and Society* 15 (5), 455–477.
- Malmi, T., 1997. Towards explaining activity-based costing failure: accounting and control in a decentralized organization. *Management Accounting Research* 8 (4), 459–480.
- Meer-Kooistra, J. van der, Vosselman, E.G.J., 2000. Management control of interfirm transactional relationships: the case of industrial renovation and maintenance. *Accounting, Organizations and Society* 25 (1), 51–77.
- Meer-Kooistra, J. van der, Scapens, R.W., 2004. The governance of lateral relations between and within organisations, Presentation at the Annual Congress of the European Accounting Association. Czech Republic, Prague.
- Meyer, J.W., Rowan, B., 1977. Institutionalized organizations: formal structures as myth and ceremony. *American Journal of Sociology* 83, 340–363.
- Modell, S., 2001. Performance measurement and institutional processes: a study of managerial responses to public sector reform. *Management Accounting Research* 12 (4), 437–464.
- Modell, S., 2003. Goals versus institutions: the development of performance measurement in the Swedish university sector. *Management Accounting Research* 14 (4), 333–359.
- Nelson, R.R., Winter, S.G., 1982. *An Evolutionary Theory of Economic Change*. Harvard University Press, Boston, MA.
- Nor-Aziah, A.K., 2004a. Corporatisation, loose coupling and stability: accounting change in a Malaysian public utility. Unpublished PhD thesis, University of Manchester.
- Nor-Aziah, A.K., 2004b. Corporatisation, loose coupling and stability: the role of accounting and accountants in a Malaysian public utility. Paper presented at the Fourth Conference on New Directions in Management Accounting, EIASM: Brussels.
- Oliver, C., 1991. Strategic responses to institutional processes. *Academy of Management Review* 16 (1), 145–179.
- Powell, W.W., 1991. Expanding the scope of institutional analysis. In: Powell, W.W., DiMaggio, P.J. (Eds.), *The New Institutionalism in Organizational Analysis*. University of Chicago Press, Chicago, pp. 183–203.
- Ribeiro, J.A., 2003. Institutionalism, power and resistance to management accounting: a case study. Unpublished PhD thesis, University of Manchester.

- Ribeiro, J.A., Scapens, R.W., 2004. Power, institutionalism, ERP systems and resistance to management accounting: a case study. Presentation at the Annual Congress of the European Accounting Association. Czech Republic, Prague.
- Roberts, J., Scapens, R., 1985. Accounting systems and systems of accountability - understanding accounting practices in their organizational contexts. *Accounting Organizations and Society* 10 (4), 443–456.
- Scapens, R.W., 1978. A neoclassical measure of profit. *Accounting Review* LIII (2), 448–469.
- Scapens, R.W., 1979. Profit measurement in divisionalised companies. *Journal of Business Finance and Accounting* 6 (3), 281–305.
- Scapens, R.W., 1984. Management accounting—a survey paper. In: Scapens, R.W., Otley, D.T., Lister R.J., Management Accounting, Organisation Theory and Capital Budgeting—Three Surveys. Macmillan/ESRC, London, 15-95.
- Scapens, R.W., 1994. Never mind the gap: towards an institutional perspective on management accounting practice. *Management Accounting Research* 5 (3/4), 301–321.
- Scapens, R.W., Sale, J.T., 1985. An international study of accounting practices in divisionalized companies and their associations with organizational variables. *The Accounting Review* LX (2), 231–247.
- Scapens, R.W., Roberts, J., 1993. Accounting and control: a case study of resistance to accounting and change. *Management Accounting Research* 4 (1), 1–32.
- Scapens, R.W., Macintosh, N.B., 1996. Structure and agency in management accounting research: a response to Boland's interpretive act. *Accounting, Organizations and Society* 21 (7/8), 675–690.
- Seo, M-G., Creed, W.E.D., 2002. With the institutional contradictions, praxis, and institutional change: a dialectical perspective. *Academy Management Review* 27 (2), 222–247.
- Simon, H.A., 1955. A behavioral model of rational choice. *Quarterly Journal of Economics* 69 (2), 99–108.
- Simon, H.A., 1959. Theories of decision making in economics and behavioral science. *American Economic Review* 49 (2), 253–283.
- Siti-Nabiha, A.K., 2000. An institutionalist study of resistance to management accounting change Unpublished PhD thesis, University of Manchester.
- Siti-Nabiha, A.K., Scapens, R.W., 2005. Stability and change: an institutionalist study of management accounting change. *Accounting Auditing and Accountability* 18 (1), 44–73.
- Specklé, R.F., 2001. Explaining management control structure variety: a transaction cost economics perspective. *Accounting, Organizations and Society* 26 (4,5), 419–441.
- Tomkins, C., 2001. Interdependencies, trust and information in relationships, alliances and networks. *Accounting, Organizations and Society* 26 (2), 161–191.
- Vosselman, E.G.J., 2002. Towards horizontal archetypes of management control: a transaction economics perspective. *Management Accounting Research* 13 (1), 131–148.
- Williamson, O.E., 1975. *Markets and Hierarchies: Analysis and Antitrust Implications*. Free Press, New York, NY.
- Williamson, O.E., 1985. *The Economic Institutions of Capitalism*. Free Press, New York, NY.