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# On the emergence of strategic management accounting: An institutional perspective

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# On the emergence of strategic management accounting: an institutional perspective

**Yi Ma and Mike Tayles***



**Abstract** — Strategic management accounting (SMA) has been presented as an efficacious approach to strategy formulation and implementation. It also suggests accountants move away from purely financial concerns to give consideration to wider business issues. Management accounting change has attracted significant research attention in recent years. This case study explores the issues which surround change and which enable the adoption of SMA and the repositioning of management accountants to become more strategic. The empirical enquiry is based in one company through a prolonged series of interviews and meetings which enabled activities over a number of years to be reviewed. This revealed an increasing strategic role for management accountants in informing strategic decision-making and how this role came into being. The research is informed by institutional theories and neoinstitutionalism in particular, to interpret the external and internal influences on the change in roles of some management accountants and the outputs of their work.

**Keywords:** strategic management accounting; institutional theory; accounting change

## 1. Introduction

This study investigates management accounting change in a large UK pharmaceutical company. There was an evolution process of accounting from conventional/routine operations to strategic involvement in and support of management decision-making. Strategic management accounting (SMA) practices have become gradually relied upon by the management accountants to provide decision support. The main objective of this paper is to document how these practices have been adopted within the processes of management accounting change; what kind of change process the case company experienced and what caused the change.

From a theoretical perspective, the paper draws on a neoinstitutional framework (Powell, 1985; Greenwood and Hinings, 1993, 1996). New management accounting practices emerged in the case company and these are interpreted as administrative innovations, the success of which was influenced by both organisational contexts and organisational actions.

The paper makes three contributions to the recent literature on management accounting change. First, it specifically sheds light on how the adoption of SMA practices is influenced by organisational environments and organisational actions. SMA studies conducted in the past have placed focus on how popular the various SMA practices are in a given population of organisations. This kind of research did not present sufficient reasoning as to why certain practices are popular or not; and also most of these static investigations relied upon cross-sectional survey methods (Guilding, 1999; Guilding et al., 2000; Chenhall and Langfield-Smith, 1998); they could not offer adequate insight into how SMA practices are influenced by organisational contexts (Malmi, 1997; Covaleski et al., 1993, 1996; Burns and Scapens, 2000; Granlund, 2001).

Second, from a theoretical perspective, the employment of a neoinstitutional framework in this study is offering further theoretical development to bridge the gap between the 'old' and 'new' institutional frameworks (Dillard et al., 2004; Modell, 2005). Compared to the conventionally utilised institutional theories in the research area of management accounting change, especially old institutional economics (OIE) (Burns and Scapens, 2000; Burns and Baldvinsdottir, 2005; Lukka, 2007) and new institutional sociology (NIS) (Granlund and Lukka, 1998; Granlund, 2001), this neoinstitutional framework has made explicit linkage between organisational contexts and organisational actions; it embraces comprehensive consideration of human actors. Therefore, it has the potential to advance our understanding of the interaction between the wider social, environmental and political pressures for change and organisational behaviour, i.e. how organisations respond to and process institutional changes.

Third, the case study design helps to explore management accounting change as a set of organisational behaviours and interprets the meanings of

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these behaviours in their specific organisational contexts. Detailed examination of the actual practices within a specific setting can be very valuable. Ahrens and Dent (1998) argue that analysing managerial ambiguities, tensions, and contradictions is a major opportunity offered by field research methods, as they permit an analysis of themes and interpretations, and can assist understanding of the complexity of accounting operations in organisations. It is precisely this type of analysis the researchers pursued in this study, which responds to the numerous calls over the recent decade for theoretically informed case study research (Atkinson et al., 1997; Shields, 1997; Scapens and Bromwich, 2001).

The rest of the paper is organised as follows. In Section 2, we briefly review the literature on SMA and management accounting change. The neoinstitutional theoretical framework is discussed next in Section 3, where brief comparisons are made to other institutional theories used by management accounting researchers. In Section 4, the research method is outlined. The case description is then presented. This is followed by an analysis section which discusses the observed management accounting change. The paper ends with conclusions, limitations and potential for future research.

## 2. Literature review

### *2.1. Strategic management accounting*

During the past two decades, SMA has generated significant research interest. SMA has been presented as the common-sense approach to the problems emanating from a changing competitive and technological environment. Some accounting researchers have seen SMA as implying a greater contribution by accountants to strategy formulation and implementation (Shank, 1989, 1996). Some have viewed it as suggesting accountants move away from purely financial concerns to larger business issues (Roslender, 1995; Roslender and Hart, 2003). Others have seen it as an opportunity to make accounting relevant again so as to elevate its standing relative to other functions within the organisation (Johnson and Kaplan, 1987; Johnson, 1992).

The term SMA is open to a number of variations, reflecting the fact that there is still no agreed conceptual framework about what constitutes SMA (Tomkins and Carr, 1996; Roslender and Hart, 2003). Various authors have posited slightly different terms for this phenomenon including, accounting for strategic position (Simmonds, 1986), strategic cost management (SCM) (Shank, 1989, 1996), and strategic management accounting (SMA) (Bromwich, 1990; Guilding et al., 2000), though they, to a large extent, overlap. Langfield-Smith (2008: 212) summarises this as:

> 'taking a strategic orientation to the generation, interpretation and analysis of management accounting information and competitors activities.'

In this study, SMA was defined as:

> 'The body of management accounting concerned with strategically orientated information for decision making and control.'

This definition resonates with Bromwich and Bhimani's (1994: 127) vision of SMA that:

> 'it (SMA) allows management accounting, in addition to its conventional fields, to concentrate upon the consumer value generated relative to competitors. It also aids in monitoring the firm's performance in the market place using a whole range of strategic variables over a decision horizon sufficiently long for strategic plans to come to fruition.'

Therefore, SMA embraces the management accounting techniques with a clear strategic focus, with future-orientated stance and explicit external focus forming the core of the concept of SMA. Additionally, SMA draws heavily on non-financial measures (Bhimani and Langfield-Smith, 2007). For example, the efficient functioning of customer-related and competitor-related practices all rely heavily on measures of non-financial nature (Seal, 2001). In contrast, the conventional management accounting operations tend to be predominantly financially oriented, paying more emphasis to historical financial evaluation.

Survey evidence shows that SMA practices have widely ranging degrees of application; and the adoption rates of innovative SMA practices are comparatively low (Chenhall and Langfield-Smith, 1998) even the awareness of the term was limited (Guilding et al., 2000). But the potential of SMA should not be overlooked; Guilding et al.'s (2000) study found that for all SMA practices appraised, the perceived merit scores are significantly greater than the usage rate scores. Bhimani and Keshtvarz (1999) indicate that senior accounting officers are offering more and more strategy-related information for decision-making. Otley (2001: 245) also remarked that SMA has made a 'major impact on the thinking of practicing management accountants'.

Contingency studies have also examined the linkages between SMA practices and an organisa-

tion's market and economic performance. Simons (1987) found that ROI is higher when accounting control systems and business strategy are more closely linked. The study of Said et al. (2003) also suggests that SMA practices are significantly associated with future accounting-based and market-based returns. However, they are not effective for all firms. The results indicate that the benefits of adopting SMA practices is significantly associated with many other factors, such as innovation-oriented strategy, length of product development, industry regulation, and level of financial stress (Said et al., 2003).

To summarise, a substantial body of accounting research has offered evidence on how popular the various SMA practices are and whether management accountants are playing strategic roles. Management accountants are also encouraged not only to provide strategic information but also to participate in the decision-making process itself (Bhimani and Kershtvarz, 1999). However, there is less insight as to how accountants engage with strategic issues (Tillman and Goddard, 2008). There is a lack of evidence on how these SMA practices have become adopted (or denied) by the organisations and the processes of these adoptions (or rejections). These are the research questions or puzzles that are addressed in this paper. Theorisations on the adoption process of SMA practices and the role change of management accountants are relatively scarce. As Langfield-Smith (2008: 224) points out in her review of the last 25 years experience of SMA 'it would be useful to understand how techniques diffuse into more general practice and into organisational processes'.

### *2.2. Management accounting change*

In the founding work of SMA, Simmonds (1981) urged management accountants to change their orientation to provide information deemed of greatest value to the business. This implies that accountants need to change their perspective from a pure financial focus to a broader business perspective, which entails a detailed understanding of the business and its environment. However, the majority of studies conducted in the past placed main focus on the technical perspective of new accounting practices. This research trend has been heavily influenced by the 'consulting genre' (Lukka, 2007: 79) which places primary attention on new management accounting techniques and their successful implementation (Kaplan and Norton, 1996; Cooper, 1996). But despite the strong suggestions of innovative SMA practices from academics and consultancy, there is ample evidence that the promotion of this management accounting change faces significant organisational tension, conflict, and resistance, which quite often results in failure of the change or merely 'ceremonial' conduct of new management accounting practices (Scapens and Roberts, 1993; Malmi, 1997; Granlund, 2001). The process of how accounting operations change with emerging organisational situations has only recently been addressed. Burns and Baldvinsdottir (2005) argue that studying the processes of management accounting change requires a conceptualisation of the ways in which new accounting practices evolve over time. However, only recently has research attention been given to understanding the accounting change processes through which new practices emerge (or fail to emerge) through time (Burns and Vaivio, 2001; Tsamenyi et al., 2006; Coad and Cullen, 2006).

Shields (1995) argues that accounting changes are administrative innovations, the success of which depends on how well behavioural and organisational implications are dealt with. Friedman and Lyne (1997) comment that the elimination of the bean-counter image attached to accountants will depend on the ability of accountants to continually adapt to a rapidly changing environment. Pierce and O'Dea (2003) also posit that for the management accountant to cope with the ever-changing environment and promote their strategic importance, they need to adapt information to the needs of a given situation and achieve an optimum balance between technical and organisational validity. Therefore, the linkage between management accounting change and its collective context, the wider social and institutional forces that surround it, are largely unexplored (Bhimani, 1993; Granlund and Lukka, 1998; Burns and Scapens, 2000).

## 3. Institutional theories

### *3.1. Institutional theories and management accounting research*

Currently, a number of researchers, who view management accounting practices as socially constructed, are drawing on a range of 'institutional' perspectives to examine the process of accounting change in correspondence with organisational change (Granlund and Lukka, 1998; Burns and Scapens, 2000; Burns and Vaivio, 2001; Scapens and Jazayeri, 2003; Yazdifar et al., 2008). They have been successful in illuminating issues in both theory and practice.

Employing institutional theories in assisting management accounting research, however, is not all that straightforward. Scott (1991: 1025) advised that 'the beginning of wisdom in approaching

institutional theory is to recognise that there are not one but several variants'. DiMaggio and Powell (1991), for example, distinguished between old[1] and new[2] institutionalism. New institutionalism (NIS) is primarily related to organisations-in-sectors and has its major emphasis on how individual organisations are embedded in a given population or field of organisations (DiMaggio and Powell, 1983; Meyer and Rowan, 1977). The success of an organisation from an NIS perspective is therefore defined by the extent to which it embodies societal 'ideals' (myths) regarding norms of rational behaviour (Scott, 2001). Management accounting researchers who adopt NIS tend to explore the extent to which wider institutional arrangements have influenced the development of accounting practices, indicating that the selection of management accounting practices is not dictated by technical criteria or economic efficiency alone, but also a cultural and political process that concerns legitimacy and power (Covaleski et al., 1996; Collier, 2001; Hussain and Hoque, 2002). For example, Granlund and Lukka (1998: 153) use NIS to argue that there is currently a strong tendency toward 'global homogenisation' of management accounting practices, which are heavily influenced by a global market, accounting professionalisation, and consultancy suggestions.

Despite its current vogue in organisational analysis, NIS has, however, been frequently criticised for its deterministic nature and its neglect of the role of active agencies and issues of power and interest at the micro-level (Carmona et al., 1998). This can be seen as largely stemming from its heavy focus on change at an extra-organisational level (Dillard et al., 2004). The same concern is addressed by Powell (1991: 194) that NIS 'portrays organisations too passively and depicts environments as overly constraining'. Additionally, Yazdifar et al. (2008) pointed out that the assumption that practices designed to secure external legitimacy are only symbolic and always decoupled from internal operating systems needs to be seriously questioned (Carruthers, 1995; Mouritsen, 1994; Zucker, 1987). NIS thus needs to be complemented by other perspectives, one which factors internal organisational dynamics into the explanation (Fligstein, 1989; Scott, 1987; Zucker, 1988).

Old institutionalism (OIE) places its focus on the individual organisation and thus could complement NIS on analysing the complex dynamics of change at a micro-level and explain conflict and actors' struggle for power (Burns and Scapens, 2000; Modell, 2001). OIE implies that the individual organisation is not passive in its choice of work arrangements and practices. On the contrary, it makes conscious choices in response to various pressures (Oliver, 1991; Scott, 1991). Furthermore, to be implemented effectively in the organisation, any choice must be backed with sanctioning power.

OIE is used by management accounting researchers to offer insights into micro-studies of the production and reproduction of accounting practices (Burns and Scapens, 2000). Its concern is primarily with management accounting change within individual organisations, i.e. the intra-organisational processes of change. The advocates of OIE theory picture management accounting operations within organisations as institutionalised, organisational practices, as budgets are prepared, performance monitored, and reports produced all in a regular and routine fashion guided by specified rules and procedures (Burns and Scapens, 2000). As such, management accounting can, over time, become the 'taken-for-granted' ways of thinking in particular organisations and promote stability (Lukka, 2007). Granlund (2001) uses OIE to explore why accounting systems can sometimes prove to be difficult to change despite significant operating and environmental pressures for change. Organisational routines, conservative organisational cultures and failure to legitimate change intentions are key factors that cause resistance to change.

In summary, NIS theorists claim that expectations of acceptable practices exist and organisations need to conform to them (Covaleski et al., 1993, 1996, 2003; Granlund and Lukka, 1998). However, the major drawback is that research has focused almost exclusively on macro-effects, leaving institutionalised practices within organisations largely unexamined (Tolbert, 1988; DiMaggio and Powell, 1991). By contrast, the OIE framework provides insightful supplements by interpreting institutionalisation as a process that is profoundly political. There is however a need to integrate the influences from the different institutional powers into the analysis of individual organisations.

The variety among institutional theories may suggest theoretical richness, but some theorists argue that there is a need to link all the contributions into a more compact theoretical body of findings that enable researchers to understand social phenomena (Oliver, 1991; DiMaggio and Powell,

[1] Or alternatively called old institutional economics (OIE) (e.g. Burns and Scapens, 2000; Lukka, 2007).

[2] Often being referred to as new institutional sociology (NIS) (e.g. Covaleski, 1993, 1996; Granlund and Lukka, 1998; Granlund, 2001).

1991; Siti-Nabiha and Scapens, 2005). For example, DiMaggio and Powell (1991: 27) suggest that 'something has been lost in the shift from the old to the new institutionalism' and went on to suggest that 'power and interests have been slighted topics in institutional research'. In the context of management accounting change research, Burns and Baldvinsdottir (2005: 728) also call all institutional theorists to further 'develop conceptualisation of, and seek empirical evidence for, when, why and how organisational actors influence management accounting changes while embedded within the institutional fabric of a particular time and space'.

In this study, the researchers use a neoinstitutional framework (DiMaggio and Powell, 1991; Greenwood and Hinings, 1996). Compared with the institutional theories introduced above, neoinstitutionalism represents a convergence around multiple themes suggested by both old and new institutionalism. In particular, neoinstitutional theory offers an excellent basis for an account of organisational change as it pays special attention to the link between organisational contexts and organisational actions and offers a more detailed account of the different interests and powers of human actors (Dougherty, 1994). This framework particularly serves as an explanation of this study in two respects.

First, both market influence (competitive pressure) and legitimating arguments (institutional pressures) are considered in the same framework rather than placing an emphasis on just one element (Scott, 2001). Early work using institutional theories was focused on the public rather than private sector. A common assumption underlying this was that in the private sectors, market forces would prevail (Meyer and Rowan, 1977; Scott, 2001; Major and Hopper, 2005). But more recent research work has found evidence that management accounting practices in the private sector are influenced by institutional pressures to a substantial degree (Ribeiro and Scapens, 2004; Tsamenyi et al., 2006). How for-profit organisations respond to both the pursuit of efficiency and institutionally driven choices remains, however, an area that is relatively unexplained.

Second, this neoinstitutional framework deals more directly with the dynamics of power and politics which influence the transformation process of management accounting operations. How human interest and power are involved in promoting or suppressing management accounting changes can be further investigated within this framework by paying attention to the different factors of intraorganisational dynamics.

Figure 1 demonstrates the main ideas behind the neoinstitutional framework. This theoretical configuration implies that organisations are open to the external environment and influenced by external forces, but organisations' responses to external pressures and expectations are no longer assumed to be invariably passive and conforming across all institutional conditions. How organisations respond to 'institutional prescriptions', becomes a function of 'intraorganisational dynamics', which involve power and interests of organisational actors (Greenwood and Hinings, 1996: 1024).

The left-hand side of the chart shows the institutional contexts in which the organisations are embedded. Granlund and Lukka (1998) hold the view that in analysing business organisations, both market (economic) and institutional pressures have important roles to play. In this neoinstitutional framework, the model of institutional isomorphism[3] (DiMaggio and Powell, 1983) is applied as the primary means to structure the analysis of external institutional environments.

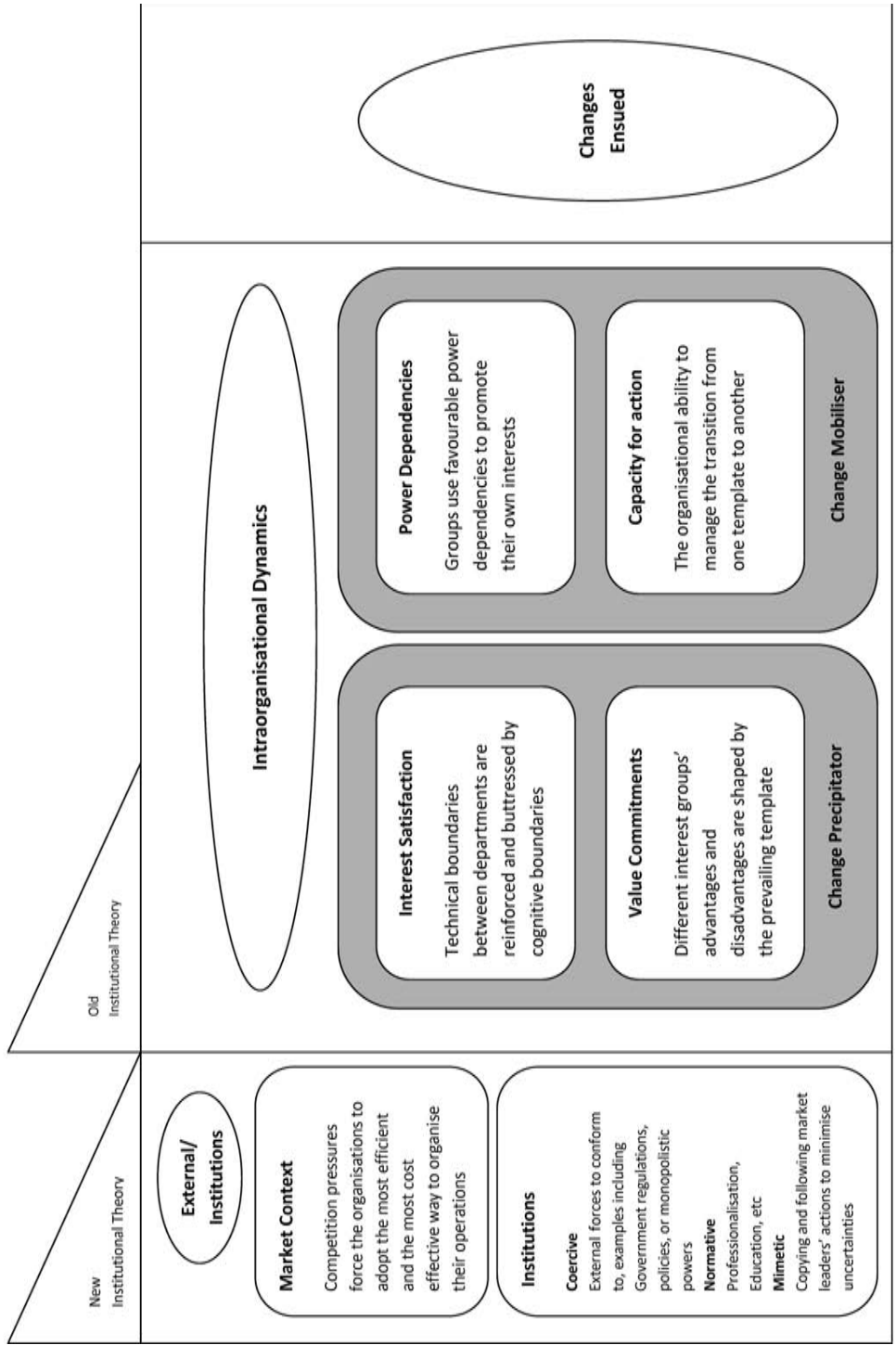
Changes in market pressures can have effects on shaping and reshaping intraorganisational power balances, which then enable change. The institutional context also acts to configure the power and status of groups within an organisation and not necessarily in a manner consistent with market exigencies. Where management accounting change is concerned, different organisations face different pressures and have different incentives to adopt innovative practices and change their systems. For example, government regulations, can coerce organisations into adopting new procedures; a large manufacturing firm can force its suppliers to standardise their logistics operations

[3] Institutional isomorphism is based on two core ideas: environments are collective and interconnected and organisations must be responsive to external demands to enhance the possibility of survival (DiMaggio and Powell, 1983; Oliver, 1991).

DiMaggio and Powell (1983) distinguish between competitive and institutional types of isomorphism. Competitive isomorphism concerns efficiency. When there is one best, cheapest or most efficient way to do things, then the forces of competition will eventually impose upon organisations that one best way. The latter category, institutional isomorphism, can be subdivided into coercive, normative and mimetic isomorphism.

Coercive isomorphism represents the pressures to conform, exerted through standards, regulations, and the like. Normative isomorphism refers to the diffusion and institutionalisation of structural attributes as a result of professionalisation. The experience of a specialised education, and the involvement in professional networks, influence how professional personnel undertake their activities within the organisation. Mimetic isomorphism stems from the tendency of organisations to imitate each other in response to uncertainty. In situations where they are not sure what to do, organisations frequently look to a reference group, to kindred organisations, and emulate what they do in the same situation.

**Figure 1**
**Neoinstitutional framework of this study**




*Source:* Adapted from Greenwood and Hinings (1996: 1034).

(coercive pressure); some firms may be more willing to imitate other firms' practices than other firms (mimetic pressure); some companies might have closer cooperation with consulting companies and be more adaptive to external suggestions (another mimetic pressure); some management accountants are equipped with more business orientation (at least willingness) to cooperate with other functions while others might prefer to operate solely within the account-

ing department (normative pressure deriving from education and professional training).

The middle section of Figure 1 describes the internal dynamics of the organisation as it struggles with different values and interests. To obtain detailed knowledge of organisational change processes, it is critical to pay attention to the beliefs and actions of those who have the power to define and influence direction of change. This demonstrates another idea of this neoinstitutional framework, that the individual organisation is the locus of institutionalisation and the primary unit of analysis; the role of intraorganisational dynamics in accepting and rejecting institutionalised practices is critical. Organisations respond to institutional contexts differently. To understand the differences, organisations are conceptualised in the neoinstitutional framework as heterogeneous entities composed of functionally differentiated groups pursuing their own goals and promoting their own interests. Two aspects of an organisation's internal dynamics are focused upon, namely, change precipitator and change mobiliser.

Central to the intraorganisational analysis is the concept of change precipitator, which is comprised of 'interests' and 'value commitments'. Functionally differentiated groups are not neutral and indifferent to other groups; technical boundaries between departments and sections are reinforced and buttressed by cognitive boundaries (Greenwood and Hinings, 1996). Thus, in any organisations are the seeds of alternative ways of viewing the purposes and configurations of the organisation concerned. One outcome of such interest differentiation is that groups seek to translate their interests into favourable allocation of scarce and valued organisational resources. Hence, a potential pressure for change comes from the dissatisfied groups whose interests are inadequately accommodated under the current organisational configuration.

Dissatisfaction itself, however, does not provide direction for change. Intense pressure arising from dissatisfaction will not lead to change unless dissatisfied groups recognise the connection between the prevailing organisational configuration[4] and their position of disadvantage. Thus, what becomes critically important in explaining the possibility of change is the pattern of value commitments[5] within the organisation. Interests and value commitments have been described as 'discrete' precipitators of pressure for change (Greenwood and Hinings, 1996). One of the crucial attributes of value commitments is that they become taken-for-granted and can serve to mute or temper expressions of dissatisfaction. That is, dissatisfied groups may not recognise that the prevailing template is the cause of their disadvantage.

Change, however, will occur only in conjunction with an appropriate 'change mobiliser', which comprises of 'capacity for action' and supportive 'power dependencies'. As Fligstein (1991: 313) noted, 'Change ... can only occur when either a new set of actors gains power or it is in the interest of those in power to alter the organization's goals.' Groups with different beliefs and interests use favourable power dependencies to promote their interests. As the prevailing organisational configuration grants more power to some groups and not to others, there is a reciprocal relationship between power dependencies and value commitment. The second enabling dynamic, capacity for action, is the ability to manage the transition process from one configuration to another. Change cannot occur without the organisation having sufficient understanding of the conceptual destination, its skills and competencies to function in that new destination, and its ability to manage how to get to that destination. Power dependencies and capacity for action are necessary but not sufficient conditions for organisational change. By themselves they will not lead to change, but they can enable or constrain it.

## 4. Research method

Theoretically informed case study research has been subject to numerous calls in recent decades (Scapens, 1990; Atkinson et al., 1997). In this paper the researchers attempt not only to report innovative SMA practices, but also to tease out the historical development of SMA and the dynamics around the research subject (Scapens and Bromwich, 2001).

The neoinstitutional framework outlined above is intended to inform analysis of the processes of management accounting change and to identify the relevant factors around the adoption of SMA practices.

So far as SMA practices are concerned, the case

[4] Or in Greenwood and Hinings' words, archetypal template, which shapes the distribution of privilege and disadvantage.

[5] Greenwood and Hinings (1996) identify four generic patterns of value commitments, which are: (1) status quo commitment, in which all groups are committed to the prevailing archetypal template; (2) indifferent commitment, in which groups are neither committed nor opposed to the prevailing archetypal template; (3) competitive commitment, in which groups are divided in preferences and in turn support different templates; and (4) reformative commitment, in which all groups are opposed to the prevailing archetypal template and prefer an articulated alternative.

**Table 1**
**Interviewee list**

| *Interviewees* | *Number of formal interviews conducted and recorded* |
|---|---|
| Financial director | 1 |
| Finance manager | 3 |
| Financial controller | 2 |
| Supply chain director | 1 |
| Operations manager | 3 |
| Marketing manager | 2 |
| Global brand manager | 1 |
| Business intelligence manager | 1 |
| Director – integrated business planning (IBP) | 2 |
| **Total** | **16** |



study method offers a comparative advantage of describing innovative management accounting phenomena and the settings in which they exist (Shields, 1997). In other words, changes happening within management accounting can be effectively interpreted in relation to the particular organisational and environmental context. Yin (1989: 23) defines a case study as 'an empirical enquiry that investigates a contemporary phenomenon within its real-life context when the boundaries between phenomena are not clearly evident and in which multiple sources of evidence are used.'

Guilding (1999) suggests that a case study design can be a potentially fruitful research initiative. Close involvement in an organisation may be the most appropriate means to further our understanding of the variety of forms that SMA can assume. A more comprehensive appreciation of organisational factors affecting adoption of SMA can be achieved as well as an improved understanding of the different uses that are made of SMA.

As Ahrens and Dent (1998) argue the potential of field research to provide rich accounts of the often very complex relationships between organisational contexts and the functioning of accounting has not been discussed in great detail. This suits the purpose of this study in the sense that SMA has been proposed for more than two decades; however, the effects of SMA in helping organisations to achieve better performance are still ambiguous and sometimes even contradictory (Lord, 1996; Cooper, 1996). Ernst and Ewert (1999: 45) believe that one reason which has caused this situation was that 'highly complex issues (around SMA techniques) are often treated in a fairly casual or even simplistic way in the existing literature . . . ' and 'our knowledge of their implications is still far from complete.'

Initial contacts with the case company were established through a senior finance manager, who was particularly helpful in arranging visits and scheduling interviews at different sites, different departments, and different levels of seniority. Several company visits were conducted. The company kindly made available a room on the site to facilitate the interviews and subsequent reflection and discussion by the researchers. Both researchers were present at all interviews and this proved valuable in improving continuity of the interviews, striking links, and affording thinking time.

The original data about this case company was collected in a series of meetings between 2004 and 2006. Each formal interview lasted for approximately one hour. Interviewees included both accounting-information owners and users, for example, financial director, financial managers, marketing managers, commercial managers and others. (See Table 1 for full list of interviewees). Interviews were semi-structured in the sense that broad themes were agreed in advance. All the interviews were tape recorded and notes taken during the interviews, transcriptions were produced immediately after the interviews, the researchers then met to discuss and reflect on the transcribed outcomes. Complementary materials were collected by studying both public and internal materials, such as annual financial reports, budget reports, manuals and memos. All these meetings and organisational materials helped the researchers obtain the historical insights of the organisation covering a much longer period than the research interaction. Several informal conversations with managers also provided valuable clues as to how interviews and documents should be interpreted.

The relationship evolved such that, in addition to scheduled interviews the researchers were able to contact both the interviewees and various other organisation members, informally to clarify any issues raised, to probe and confirm any observations made, check approximate dates and chronology and

obtain, or 'chase' for copies of documents mentioned in interviews. Various techniques were used to ensure recollection was accurate including locating insights by reference to major stages in the organisation development, major staff appointments or procedural changes. Additionally, responses and dates quoted were confirmed with more than one interviewee in order to confirm data by triangulation.

## 5. Case description

### *5.1. Background*

Meditech[6] Group is a global medical technology company currently operating in 33 countries with four global business units (GBUs). The company first set up as a family business in England more than 150 years ago. In the last decade, it has gone through a series of successful organisation-wide changes in reshaping its organisational structures and it has grown into one of the top companies in its field in the world. These changes have also led to noticeable transformation of its management accounting operations.

Due to the wide scope of the company operations in various fields, this case study will focus on one of the GBUs, Wound Management (WM). WM is the second largest GBU within the group with an annual turnover of around £350m, it is a world-leading provider of advanced wound care products used to treat hard-to-heal wounds. To date, WM has four manufacturing sites and 35 outsourcing suppliers worldwide. WM's major customers are the various providers of medical and surgical services worldwide. In many parts of the world, these are largely governmental organisations funded by tax revenues, but they also include private medical providers.

### *5.2. Organisational change*

The global business structure was a relatively new development. During the 1990s Meditech had an established regional structure. The origination of this regional structure could be traced historically to the geographical expansion pattern of the company over the previous decades from the local UK market to Europe, US, and then over other continents. In line with this regional structure, the global operations had been delegated to several regional central offices, namely Europe, US, Africa and the Far East. The regional directors oversaw the management of operations of the whole region and then reported to the global headquarters in the UK.

From the late 1990s, the organisation launched a series of successful products and had been enjoying fast growth. This fast growth exposed the inefficiency inherited in the regional governance structure. All the regional functional departments, from operations, to marketing, to commercial, were tasked with dealing with all the different lines of products at the same time, but constrained by their limited regional visibility. Different markets have distinctive needs for different products. For example, Britain has the highest demand on advanced wound foam products. In contrast, while America has the largest wound dressing market, the dominating products are still very traditional. It is therefore critical for the organisation to design appropriate products to suit the individual markets. However, because in the regional structure the global markets were segmented geographically, it did not help the commercial departments gather market intelligence, nor did it assist the central innovation to provide appropriate new product designs and improved functionality.

The regional headquarters had traditionally placed considerable stress on financial performance. This emphasis on growth and financial health was inevitably linked to an environment of mounting global competition. The control mechanisms imposed upon operating units were very financially orientated, aggressive pursuit of year on year growth of sales was demanded by the regional finance office.

> 'Obviously, growth rate is paramount. We are in very competitive markets with other big players. It is actually a very fast growing, dynamic market. We have got to make sure our growth rate overtakes our competitors.' – Financial Controller

However, this caused serious limitations in terms of a general overview of the business. As one marketing manager recalled,

> 'The only way the marketing budgets got challenged was that the numbers were not aggressive enough or not seen as aggressive or ambitious enough. But there was no real understanding of issues at the markets.' – Marketing Manager

This regional structure, compounded by rigid financial control, in fact hindered the company's development and pursuit of growth and caused various intraorganisational conflicts. Tensions could be easily found between the commercial teams and the regional financial administration. A common perception shared by the individuals through that period was that:

[6] The names and precise details of the company and its products have been changed to preserve confidentiality.

> 'Nobody was there setting strategies of what should be sold in the market … There was nobody centrally saying well, actually ''we want this product to go this direction'' and ''those are the new products we have got coming through''.' – Director – Integrated Business Planning

The headquarters was trying hard to find answers to solve the dilemma between tight regional control and global business integration. As part of the solution, a major consulting group was involved to help develop an organisational-wide strategic transformation. In the early 2000s, A GBU structure was suggested, which aimed to remodel the business by the distinguishable nature of their different activities.

Thus Meditech launched the change from a regional to a GBU structure. Four GBUs were set up in the hope of 'creating and defining a new set of businesses instead of individual countries' – Global Brand Manager. The Meditech central finance office was downsized to a small team with responsibility to consolidate all the global financial data and deal only with financial reporting procedures, as each GBU developed its own finance function. The reorganisation from regional structure to GBU structure was a relatively smooth transition, fuelled by the headquarters' emphasis on more globally coherent operations. In addition, as the production, supply, and commercialisation of different products were naturally separated, reorganising the operations along the product lines was fairly straightforward.

Along with this development of GBUs, came greater autonomy. GBUs were required to bring forward their own strategies and the WM Board united on the notion of shaping the GBU with a clearly defined strategy of 'focusing on the higher added value segments of wound healing'. Many traditional products with low-tech inputs have since been either sold or eliminated from production in order to give way to the strategically prioritised high-value added products, the market for which includes expensive capital equipment and advanced foam products.[7]

WM's emphasis on high value-added products gradually led to a 'super-brand focus'. There were three 'super-brands' which accounted for the major part of the total revenues. Investment in these super brands were inclined to be approved more easily, while many other smaller brands were somehow overlooked and it was difficult for them to attract enough financial support. Super brands were also competing against each other for investment. This lack of coordination on brands was largely caused by the structure of the marketing department, in which different brand teams reported to different brand directors, which resulted in a situation where there was not enough communication between different brand teams. At around this time, competitors started to bring to market more innovative products, many of which were focusing on the more profitable capital equipment market. Meditech lagged in this new market sector and were under mounting competitive pressure.

In the regional structure that existed previously, the lack of attention from the central office to operational details had led to a situation where individual selling organisations in different country markets were doing things in their own way. For example, sales managers used to drop prices periodically to generate bigger sales volume, but once the prices were lowered, it was hard to put them up again, given the high price transparency and advanced market intelligence of competitors. A price reduction in one country could also lead to cross-border transactions and a chain-reaction to other markets, causing serious loss in revenues, in addition to causing damage to the brand image.

A major reason for this situation was that the selling organisations were managed by rigid financial controls which were administered remotely. This 'management from headquarters' actually impelled the sales department to make decisions for their own benefit, but not necessarily optimally for the whole organisation. So the selling organisations always regarded reaching targets of sales revenues/profits the top priority. Such problems pointed to a major issue for top management, dealing with the supply chain.

> 'We were obviously struggling with the supply chain and not getting products through from production to market in a controlled way … We were all working in isolation to each other. As much as we tried to talk to each other, we didn't have a forum. Supply Chain for example, would rely on conversations with the markets and that depended on whether that person had a good relationship with that market, but markets did change and people moved around. To me, that was too weak a process, you know, relying on people's good relationship.' – Director – Integrated Business Planning

All of these signals pointed to a central problem that WM was facing – the lack of an efficient central planning function that could organise all the

[7] Wound management is not restricted to simply applying a dressing but can use foam to treat infection and capital equipment to close and 'seal' a wound.

business operations under a unified strategy. In seeking a remedy, the WM Board initiated further changes to improve the coordination of the global operations. An initial step agreed by the Board was that there was a need to improve the global supply chain structure as significant savings were expected from efficient shipping, forecasting, optimising best production sites and similar actions.

As a result, a new supply chain director was appointed. The new supply chain director felt that, based on his experience from previous appointments in the FMCG sector, WM had historically overlooked the importance of planning and coordination. Soon afterwards therefore, WM launched a consultancy-initiated programme, Integrated Business Planning (IBP). The Board agreed to the initiative from the supply chain director and the consultancy that the central planning function needed to be strengthened. Consequently, a new department IBP was established to take control of all business planning activities. The main responsibility of the IBP director was 'to integrate the global business processes to make sure the GBU is on track to achieve its strategic targets.' – Director Integrated Business Planning

The launch of IBP was aimed at improving WM's central planning and coordination function. To do so, IBP explicitly linked the long-term strategy of the GBU (normally five years ahead) and the short-term operational goals at departmental levels (one- to two-year plans). IBP makes viable and explicit plans for the next three years to translate the long-term inspirational objectives into short-term actions.

> 'IBP is looking at both the current launches (of products) and the future. So it's tracking what's coming through the innovation pipeline. It's the current situation and future of three years out.' – Operations Manager

IBP also categorises all business projects into three distinctive groups, namely, Brand Building, Commercial, and Supply Chain. The biggest benefit of this categorisation is that it helps to draw out the clear scope of these projects and to focus the attention of multiple functional areas to deliver the projected results. This whole activity has been undertaken with support from the finance function from whom investment, cost and revenue information are sourced.

Observing the importance of efficient communication, the IBP has implemented a new computer-based sales reporting system, 'Business Objects', to provide unified and reliable information across all business functions in the place of previously segmented information sources operated by different departments. The new planning and forecasting information has resulted in greater involvement and credibility for the finance function and the communication between departments has also been facilitated by the shared information. To resolve the silo mentality existing in marketing, a new marketing director was also appointed to supervise all the brands and ensure efficient communication and logical and transparent resource allocation between different brands.

### *5.3. An overview of the management accounting operations in WM*

In WM, the management accounting function went through an initial denial phase to be followed later by one of transformation. When the organisation changed from the regional structure to GBU structure, the accounting operation remained largely unchanged. It was only when the new IBP came into operation that SMA practices started to be systematically developed and utilised.

During the organisational transition from regional to GBU structure, most of the conventional management accounting functions previously undertaken at a regional level were passed onto the finance[8] departments of the new GBUs. Within the regional structure, the management accounting function was not clearly defined and accounting staff spent most of their time dealing with external reporting. This can be explained by the fact that historically accounting operations were detached from the real business operations. The internal management functions, such as planning and controlling, had been performed, as best described, 'superficially' without sufficient consultation with other business functions. One example in point is that, before the installation of Business Objects, both accounting and commercial departments used to report their future forecasts into their own systems. However, data in the different systems was rarely cross-validated resulting in inevitable tension and some confusion. In addition, the lack of attention from management to the traditional man-

[8] In this paper the term 'management accounting' is used interchangeably with the term 'finance'. Within the literature, 'management accounting and strategic management accounting' are widely used to apply to the activities we were investigating. However, within the case company the department carrying out these activities was called 'finance'. Hence in our discussion of the literature 'management accounting' is used whereas in the case study 'finance' applies. In the case we also mention management accounting operations being the managerial accounting activity carried out by those in the company finance function.

agement accounting reports resulted in the perception within the organisation of their limited relevance. For example, even if the operational and/or selling units missed their budget targets, there were rarely any consequences or remedial actions, therefore, there was lack of incentive for finance to get involved in operational details.

With the development of IBP, finance underwent a significant reorientation. A small team of accountants now deals with transaction processing and statutory reporting. Hence the energy of the finance function has been liberated into a new business-support role, which is linked to the IBP process. In each team, assembled around the different business cases, there is a finance manager in charge of the budgets and he/she sits on the IBP panel as a member of the team sanctioning business projects. IBP meetings are held monthly to discuss the business cases. As business cases are categorised into three areas (brand building, commercial and supply chain), there are corresponding global brand review meetings, global commercial review meetings, and global supply chain meetings to discuss the progress of the various development initiatives. Management accountants as key members of the teams play a major and proactive part in the review meetings and for these they produce three key SMA reports which they term: Decision Tool, Rolling Forecast, and General Executive Measures (GEM), (For an outline of these see Appendix.) These new reports have embraced distinctive SMA characteristics, such as market and competitive concerns, and future orientation, all of which have a clear contrast with the traditional management accounting operations which were largely historical and financially orientated.

The cooperation between finance and other functions has thus been largely reshaped by the introduction of IBP. A new role, brand accountant, has been created as finance identified the need to strengthen their support of marketing operations; brand accountants now offer marketing teams the support of dedicated contacts in finance. Previously, some of the projections produced by marketing for investment decisions were seen by senior management as implausible. For example, the financial director expressed concerns, on many previous occasions, that marketing plans and brand promotions were 'too good to be true' and the financial impacts 'cannot be right'.

> 'Brand accountants are there to help the marketing teams with a series of operations that were historically regarded as being ''unsatisfactorily conducted'' by marketers. These include product pricelists, profitability analysis, business growth projection, etc. Adding brand accountants into the marketing teams has proved very useful. The accountants have effectively instilled financial awareness into the daily marketing and commercial operations. This helped to improve the report quality and communications across all functions.'
> –- Financial Director

The financial director believed that close day-to-day contact between marketing and accounting is essential in nurturing business-wide integration. The marketing managers gradually accepted this proximity, as one marketing manager commented:

> 'More and more we are involving finance for data and evidence to back up commercial decisions. While before, they probably were in some kind of isolation, now, finance gets involved from the very beginning. You have the formality of IBP meetings, but that doesn't stop you if you have any questions popping down to the finance office or picking up the phone, I think because they spend a fair bit of time here, the relationship is built up, and most people are comfortable asking finance for their point of view and advice on anything, which involves financial inputs. In terms of this relationship, I don't think it's an issue. It's good to have the visibility of finance people here.' – Marketing Manager

Additionally, a brand profit and loss report (brand P&L) is produced, a new creation led by the brand accountants. This new monthly report, in which a view is taken two to three years ahead, provides a future trend analysis. A list of future brand development initiatives is provided. These initiatives are categorised into brand building, commercial, and supply chain, with their financial impacts provided. They are closely monitored and constantly reviewed as they progress. The brand P&L is aimed at bringing improvements to the brand performance by focusing on all possible options. The analytical and interpretive skills of brand accountants have been drawn on to evaluate the investment impacts of various alternatives and integrate the data into the brand P&L reports.

In WM, management accounting operations have changed. The management accountants have demonstrated their success in blending into the new decision-making and commercial support role. That is, the finance function within WM has gradually taken on the 'internal consulting' or 'business strategist' role (Fern and Tipgos, 1988). This reflects a change in the way finance is being used, from a traditional monitoring and control perspec-

tive, to a more business and support-oriented perspective.

## 6. Case analysis: the evolution of the management accounting operation

In this section, the evolution of management accounting is interpreted through the neoinstitutional framework outlined in Section 3. Figure 2 captures the application of this neoinstitutional framework to the case study.

### *6.1. External and institutional environment*

Intensified competition has been argued by many management accounting researchers to be a major driver of management accounting change (Hoque et al., 2001; Krishnan et al., 2002). For Meditech, the market pressure triggered the change of the organisational structure, which in turn called for accounting change. The competition pressure in the healthcare product market was highly visible and this was heavily influenced by the ongoing healthcare reformation across many countries, typical examples include NHS in UK and Medicare in US. Healthcare institutions required more and more products with lower costs and improved healing performance, e.g. faster and improved healing to reduce hospital stays and rehabilitation time; or reduced number of product applications required for effective treatment.

As suggested in Figure 2, for the wounding healing sector, market demand has been growing particularly in the use of innovative 'capital equipment'. Capital equipment is significantly more expensive than a traditional wound dressing, hence financial criteria become a more important part of the sales dialogue. Sales people are more involved in justifying and persuading the financial managers of large customer organisations (mainly institutional buyers, such as hospitals or health authorities) to make purchase decisions. This required the sales people to understand the financial impact of the purchase and demonstrate how the purchases can contribute to more cost-effective solutions for healthcare services.

These new external conditions called for a change of management accounting to embrace more business considerations and to support commercial operations. SMA offered appropriate ideas to address these market demands. The emergence of SMA in Meditech can be seen as a reaction to the economic pressures which have created the need for better performance monitoring, more accountability of marketing and commercial operations, and enhanced balancing of short- and long-term perspectives in decision-making. There is considerable evidence of the wide use of non-financial measures and the popularity of business-oriented management accounting practices, such as competitor performance appraisal, and customer profitability analysis (Granlund and Lukka, 1998; Vaivio, 1999; Smith, 2002 ).

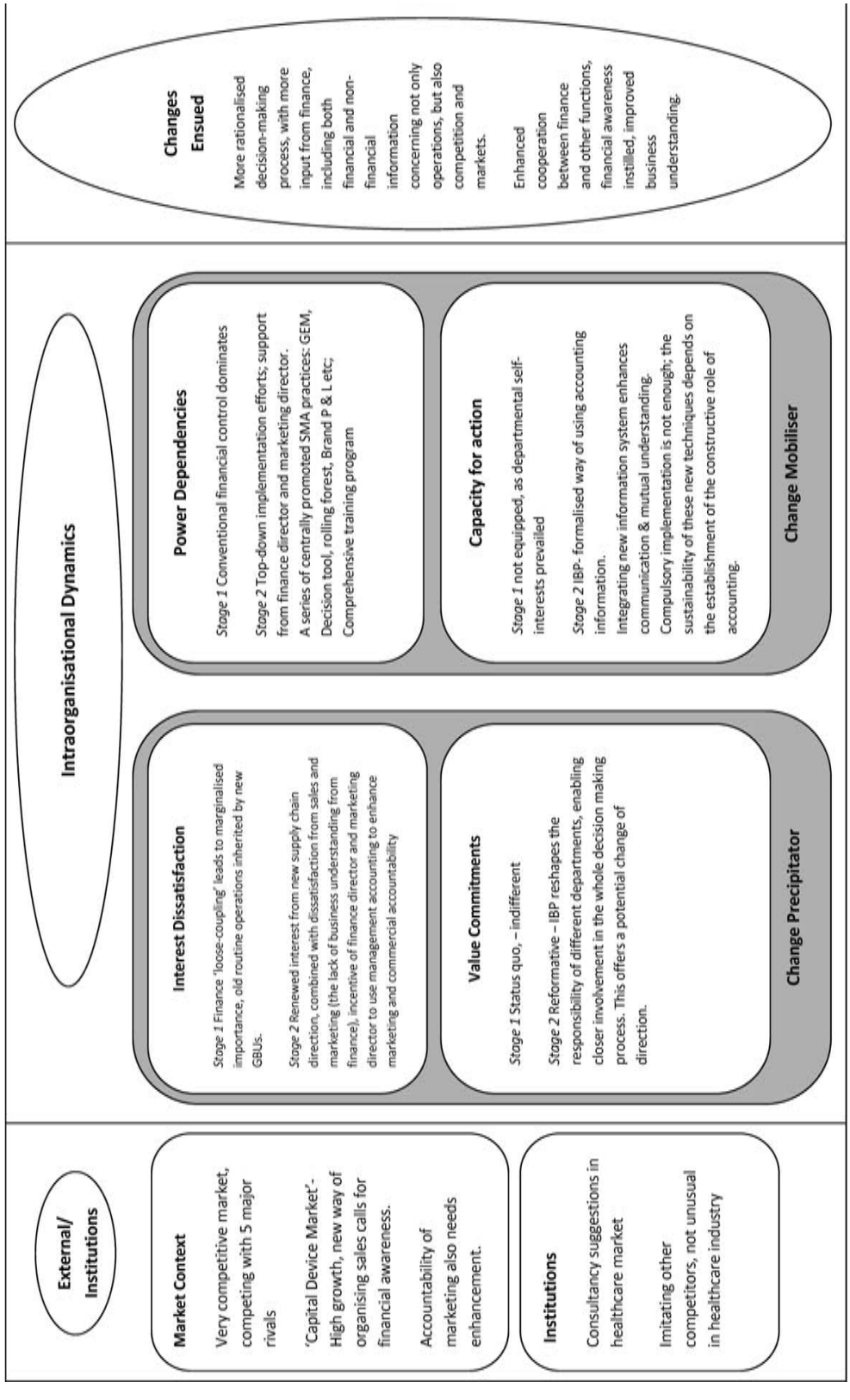
Also shown in Figure 2 is another institutional pressure, which is largely 'mimetic' in nature. Mimetic pressures exist when firms learn from each other because not doing so would potentially disadvantage them relative to the competition and erode their edge in the market place (Guler et al., 2002). Big organisations are constantly 'in fighting' with rivals for market share and customers. Mimetic pressures suggest that companies, under conditions of uncertainty, tend to copy their models of operation from each other, especially from successful companies that have good reputations (O'Neill et al., 1998). Imitating competitors' way-of-doing-things is another channel for the diffusion of management innovations (DiMaggio and Powell, 1983). Several interviews revealed that various management accounting practices employed by Meditech as 'not unusual across the industry'.

> 'We like to think we are doing something very distinctive, different, and unique. The reality is we will have slightly different terminology, or we are doing it at different paces, but what's happening to the finance function in companies of our sort of size is very consistent. Again, the techniques which feed into that vary somewhat and that's largely influenced by what the strategic priorities are for particular organisations at a point in time. But it's perfectly possible to trace a consistent story of what's happening to finance.'
> – Financial Director

This mimetic process is also facilitated by the involvement of the consulting industry. Consultants promote their successful experiences in certain companies as responses to similar problems encountered in other companies (Granlund and Lukka, 1998). In WM, the influence of consultancy has also been significant, from macro level organisational change (from regional structure to GBU structure), to micro level internal planning (the launch of the IBP programme). The adoption of many of the SMA practices can also be traced back to the suggestions from the consultancy.

From the above description of the external environment, it seems the market pressures offered a strong incentive for management accounting change and the diffusion of SMA practices has been largely through mimetic processes.

**Figure 2**
**Application of neoinstitutional framework to the case study**




*Source:* Adapted from Greenwood and Hinings (1996: 1034).

*6.2. The intraorganisational dynamics*

Despite the encouragement from the external environment for the change from conventional management accounting operations and the adoption of SMA practices, there is plenty of evidence of intraorganisational resistance to the SMA practices (Burns and Baldvinsdottir, 2005). Granlund (2001) believes that the external institutional and economic factors alone do not offer sufficient explanation of management accounting change.

The external market environment triggered Meditech's organisational reformation. However, in spite of the set-up of the GBUs, most of the conventional accounting operations performed by the regional finance offices were inherited by the finance departments of the new GBUs. Historically, within the regional structure, the responsibilities of the regional finance offices were very vaguely defined, and accounting personnel were expected to perform various roles covering financial reporting, auditing, and transactional data processing and not only the management control. The reality was because accounting staff had spent most of their time dealing with external reporting, the internal management accounting functions, such as planning or controlling, had been performed, at best, 'superficially' without sufficient consultation with other business functions. This situation is described by Meyer and Rowan (1977) as 'ceremonial' organisational behaviour or 'loose coupling', indicating that these routinised practices were maintained to give an appearance of meeting management requirements rather than having any value-adding or other practical purposes. Burns and Scapens (2000) also articulate in their framework how the old accounting routines with historical institutional encoding tend to survive in the new environment, as they are somewhat abstracted from day-to-day activities and have become established practice. In Meditech, there was also a lack of incentive for finance to initiate any changes as there was traditionally a lack of attention from management to the reports produced by the accountants.

The reason that no management accounting change materialised at this stage was mainly due to the lack of a 'change precipitator', which was mainly caused by 'indifferent commitment' (Greenwood and Hinings, 1996: 1035), meaning that there were groups that were neither for nor against particular changes, nor were they aware of any possible directions of change. One of the crucial attributes of value commitment is that if they become taken for granted, they can 'serve to mute or temper expressions of dissatisfaction' (Greenwood and Hinings, 1996: 1036). In this case, with all the different tasks the finance office handled, financial reporting was the most demanding and consequently prioritised task. Without clear allocation of job responsibility, the personnel assigned to management accounting operations could be easily borrowed to deal with more 'pressing' reporting matters. Therefore the importance of management accounting operations had been marginalised and there was lack of incentive for finance to get involved in operational/commercial details. On the other hand, since management accounting operations were undertaken only to sustain a ceremonial control role without getting in touch with the real operations of the business, other business functions also took it for granted that this was how things had been done in the past and no one questioned the efficiency and/or efficacy of the management accounting operations.

The main trigger for the management accounting change in Meditech was the subsequent implementation of IBP. As competitors started to introduce to the market innovative products, some of which were focused on the capital equipment sector, WM's weakness on innovation and lack of coordination on brands was exposed. Interest dissatisfaction had been further increased in two respects. First, there were conflicts between different brand teams as they were fighting each other over resources. Second, the lack of effective control from the GBU headquarters had negatively impacted the implementation of the global strategy. Finance was, however, perceived as lacking sufficient business understanding and thus placed at a distance in helping to solve these problems. This was caused by the image created earlier of their 'bean-counting orientation' and their emphasis on 'rigid financial control' of the global business.

Change would only happen when dissatisfied groups recognised the availability of alternative ways of operating in which way they can better express their interests. This will effectively change the 'value commitment' from 'indifferent' to 'reformative'. In this case, the 'change precipitator' emerged following the appointment of the new supply chain director from a leading fast-moving consumer goods (FMCG) company. He introduced to WM a consulting firm to help redesign the planning process. The consultant's collaboration revealed that the finance department needed to support the planning and coordination role more appropriately and a route for potential change emerged. Thus, by hiring key personnel from another institutional sector, a new 'template' or new way of doing things was built into the organisation. This corresponds to what

Greenwood and Hinings (1996) observed when newly recruited employees ostensibly introduce new practices, they often bring to the organisations their experiences of governing and organising in fundamentally different ways. In this case previous experience in other organisations was used to introduce to this organisation the awareness of the alternative 'archetypal templates' and knowledge of how to operate such alternatives.

As suggested in the neoinstitutional framework, change precipitators provide the incentives and directions for any possible changes. But to make changes actually happen, it is essential for there to be a 'change mobiliser', an important part of which refers to supportive 'power'. Positions of power can be used to either support or derail organisational changes (Covaleski & Dirsmith, 1988). Therefore, changes will not become possible unless those organisational actors in positions of power are in favour of the proposed change. In this case, the new value commitment towards the adoption of SMA practices and the strategic involvement of management accountants received support in several respects. First, the IBP process brought together all the relevant functions in a team structure to cooperate on the various business cases and management accountants were required to prepare relevant data to facilitate this process. The IBP way of working required the management accountants to perform a strong coordination role and the involvement of finance started from the very early stage of the construction of the business cases through to the final stage of the assessment of their accomplishments. Finance was required to understand the operation of the business much better in order to fulfill this new role. Second, the financial director and the financial controller were strong supporters of the IBP. They exerted their influence to make the necessary management accounting changes happen. Here we can see a link between the interest dissatisfaction and the power shift. The concern from the financial director about the quality of business reporting by marketing created for him the incentive to use management accounting to improve the accountability of marketing operations. Traditional management accounting research recognises that management accountants are primarily concerned with monthly reporting routines (e.g. Drury et al., 1993; Bromwich and Bhimani, 1994; Drury and Tayles, 1995), but the financial director and financial controller in this case placed great emphasis on analysis rather than reporting, and on explicitly supporting top management decision making. For instance, the creation of 'decision tool' was under the direction of the WM financial director. The 'rolling forecast' was co-designed and refined by the financial director and the IBP director. The management accounting reports are still produced monthly (for example, rolling forecast and decision tool), but the foci have been shifted to management issues and the attention on future performance improvement rather than routine reporting.

> 'I think the financial director is very keen on this. He's not only looking at things from a pure financial point of view. He is very good at understanding the strategic relevance of what we are doing. I think he is a very approachable guy and you can have very good communication with him. He is genuinely interested in what we are doing and why we are doing it.' – Global Brand Manager

To further support the marketing operations, brand accountants were assigned to the brand teams to help instill financial awareness into the daily marketing and commercial operations and improve the report quality. As one brand accountant recalled,

> 'While before, you got business cases to the financial director with estimates of over 70% operating profit, which could not be true. He was really frustrated with that. Whereas now, we are taking much of the noise away, at least when the reports come to him, they look viable and not too good to be true.' – Finance Manager

With the cooperation from the financial director and financial controller, the IBP in place has made management accounting change feasible. Many individuals in the organisation testified to the fact that accounting people became much more involved in and understood what was going on in the business.

Another important component of the 'change mobiliser' is 'capacity for action', which allows organisations to realise the transition from one template to another. As Greenwood and Hinings (1996: 1040) point out 'change cannot occur without the organizations having the skills and competencies required to function in the new destination'. Therefore, to make the management accounting change successful required finance to establish its legitimacy in the eyes of other functional groups. The success of change thus depends on whether new management accounting practices can make realistic contributions to the organisations' strategic objectives. Scapens and Roberts (1993) noticed that resistance to accounting change could be the consequence of failing to secure the legitimacy of a new system, coupled with

problems in finding a workable language to communicate between accounting and other operational departments. In WM, it was noted that management accounting had played a supportive role in assisting decision-making within commercial activities. The sales function benefited from the close cooperation with finance; with increased financial awareness, sales managers felt they were in a better position to persuade the customers to make purchase decisions, based on a fuller understanding and more comprehensive analysis of the financial impact and 'health-economic' effects. Marketers had become used to the way of working side by side with accountants, and developed a high regard for brand accountants.

> 'I think what finance can do is they can ask very objective questions. You know, when we are pushing certain marketing campaigns that we are especially passionate about, the finance person can say, "well you know, clarify to me the benefits, based on a list of criteria, asking why you are doing it." Sometimes, this can make you stop and think, am I doing the right thing here? And you know, the more the brand accountants are involved, the more they know where we are going strategically.' – Global Brand Manager

Finance also benefited from this close proximity with other business functions. A better understanding of business activities was gained by finance.

> 'I think there is always a danger that you have the commercial person looking for the commercial opportunities and you have the finance person that only sees the figures on paper. Whereas I think now, because we work together more, people here are learning and understanding that you need the details and the finance people are learning about the bigger picture of commercial outputs. Yes, it works well.' – Finance Manager

There is some support in these findings for the argument of Chenhall and Langfield-Smith (1998), that heavy reliance by management accountants on the formal structure for their authority could become an impediment to their involvement in strategic management, as this would distance the relationship between the accounting and other functional areas.

## 7. Conclusion

This paper aimed to explore the process of management accounting change and adoption of SMA practices using a case study. Burns and Baldvinsdottir (2005) argue that studying the processes of management accounting change requires a conceptualisation of the ways in which new accounting practices evolve over time. In explaining the process of management accounting change, the researchers employ a neoinstitutional framework (Powell, 1991; Greenwood and Hinings, 1996) to link organisational contexts with organisational actions and carry out more focused research into the human incentives behind the observed management accounting change.

In this company there is considerable evidence of the adoption of new strategic management accounting techniques and approaches to support the new organisation structure and ways of working. Over the period examined in the case study vivid changes occurred to the role of the finance function in Meditech and in the provision of management accounting information, in particular the adoption of a more strategic approach to accounting information provision. This is shown in a number of ways such as the brand P&L account, the decision tool, rolling forecast and GEM measures. All of these documents displayed competitor, customer, forward-looking and non-financial dimensions. This information was to support senior management and was influenced by the development of the improved central planning (IBP) function.

Senior manager influence on this process was also evident, in that the new techniques met the needs of the Financial Director, Supply Chain Director and Marketing Director, and it would not have taken place without their support. The influence of consultants should not be overlooked also, in that they were involved in the emergence of the new organisation structure, supply chain emphasis and the IBP systems which were precursors to the emergence of the strategic management accounting information. Management accounting personnel from the finance function in Meditech became more engaged in the dialogue of 'business issues', for example, with marketing where they started talking the same language. In their research on sense-making and SMA, Tillman and Goddard (2008: 86) point out that management accountants were involved in the everyday activities of managers being termed 'sparring partners' or 'right hand' of management reinforcing the 'business partner' role that we observed here. In Meditech, accounting staff were 'hot desking' in marketing which made them more accessible and marketing became more familiar with accounting language in order to justify to customers the cost saving of their 'capital' investment in new equipment. This is a considerable change from the earlier situation where some of the systems were held in different functions and where data from them was not completely cross-validated.

Several important messages concerning management accounting change are identified in the analysis. The external environment of the case company seemed to indicate strong demand for new management accounting practices. Competitive pressures impose strong demands on efficient conduct of commercial activities. SMA offered highly appealing solutions to enhance the accountability of these activities. In addition, the adoption of innovative SMA practices in the case company were derived from imitation of successful experiences of major rivals (mimetic), or recommendations from consultancy partners (normative). Compared to the case studies in the public sector, coercive pressures from government or industrial regulation were less obvious, but powerful customers (hospitals) dictated the needs of financial information concerning the cost-effectiveness of the products being offered. This in turn influenced management accounting operations and promoted the adoption of SMA practices. The case findings therefore support Granlund and Lukka (1998) in their assertion that current management accounting practices are strongly framed and driven by factors at the macro level, at which various and considerable pressures of convergence are currently at work.

Strong influences from the external environment, however, do not necessarily impose similar management accounting changes across an industrial population. Neoinstitutional theory suggests that change is one of the dynamics of individual organisations as they struggle with different interests and values. Different interests of organisational actors are needed to motivate any potential changes. But interest dissatisfaction will lead to change only if it combines with a new value commitment which gives direction for future change. In this case, at first, the lack of a new 'value commitment' caused accounting inertia when the organisational change first happened. New value commitment was built up in the organisation only after the appointment of the supply chain director and the introduction of IBP, which served as the new 'archetypal template'. IBP in this case proved to be critical in promoting this cross-functional cooperation and facilitating the strategic involvement of management accounting. Before the launch of the IBP, the management accounting operations in WM were very financially orientated. The discipline of IBP imposed formalised integration meetings, in which cross-functional teams were assembled to initiate, execute, and review business initiatives. Finance operations had been largely reshaped to accommodate this new process to incorporate strategic management accounting activity which involved close cooperation with other functions as a result.

There have been a number of reported management accounting change failures in recent literature (Scapens and Roberts, 1993; Lord, 1996; Malmi, 1997). Low adoption rates of many SMA techniques are also found in several surveys (Guilding et al., 2000). This case study suggests that the rationale behind the adoption of the new practices is whether they fit with the organisations' strategic agenda and those SMA practices that show high relevance to the organisations' strategic objectives are adopted. This fact helps to dispel the view held by some researchers that SMA is a 'figment of academic imagination' (Lord, 1996: 364). The case evidence also suggests that organisations are not introducing innovative SMA techniques in a 'faddish' manner (Tomkins and Carr, 1996), but applying these techniques as a response to the challenge of new organisational forms and new market conditions.

SMA practices emphasise competitor-focus and long-term orientation, and these features are embraced in the new ways of working of the management accountants. In all the new reports produced by finance, there were not only conventional financial 'snapshots' to demonstrate the financial impacts of different projects, but more importantly non-financial indicators of operating concerns and strategic priorities, such as brand performance, supply chain issues, or customer service. The long-term impact is stressed instead of the short-term and immediate influence on the current P&L account. The new reports produced by the finance department have gained management accounting a reputation for contributing objective information to raise awareness of ongoing business projects. The cooperation between finance and other business functions had been improved, and a good learning experience had been shared by accounting and non-accounting departments.

Whilst the insights acquired here are significant and revealing they are limited by the fact that this is but a single case study developed in a specific setting, as such it contains the usual qualifications regarding generalisability. Additionally, problems, similar to those faced by other case study researchers, included the constrained timeframe of some interviewees, the occasional non-availability of interviewees and the need to reschedule meetings, the ability of the interviewee to recall accurately past events (locate to the timeframe), the inaccessibility of sensitive information, though it was often possible to see past examples and obtain 'sensitised' outlines of documents to inform the research.

Furthermore, case study researchers rely on descriptions offered to them by organisational participants. These are often based on the individual participants' own interpretations of their experiences and observations, therefore case studies do not represent unproblematic facts (Ryan et al., 2003). The paper contains the social reality in which the organisation operates and this is interpreted by the researchers in a subjective manner; hence, as Scapens (1990: 277) observes 'there are no objective case studies'. Notwithstanding these limitations, considerable care was taken to obtain access to all relevant interviewees, based on their availability, to ensure an objective and realistic interpretation of SMA in this organisation and the events which brought about a changed role and more strategic orientation for management accounting.

In light of research carried out to date in SMA which has been referred to above, future research could take the form of further case studies of SMA in a range of different organisations. It is highly likely that different organisations operationalise accounting information in different ways, in the hands of different personnel and with different impacts upon strategic processes. Hence it is potentially interesting to explore how and to what extent management accounting operations cooperate with organisational strategic objectives within particular settings. These should be in more diversified industrial sectors to reflect the influences of complex strategic and environmental factors.

In this study the use of institutional theories has been used to demonstrate that the adoption of SMA is as much an organisational choice of conformity to social norms of behaviour as it is to achieving a high level of economic efficiency. Thus insights from different research paradigms should be encouraged. Combining multiple theoretical perspectives can help to create more complete and valid explanations of causes and effects of SMA practices in organisations.

In summary, the exploration of the sociological dimension of management accounting change has proven valuable in explaining the changes observed in Meditech. This case study illustrates eventual successful management accounting change with clear strategic focus as a result. It offers new insights into adoption and successful implementation of SMA practices and the close involvement of management accountants on strategic issues.

## Appendix
## Terminology

**The decision tool** is a list of all the projects, which represent future improvement efforts. Different projects are categorised under the headings of 'Brand building', 'Commercial', and 'Supply chain'. The decision tool provides an overview of all projects for the whole GBU. Even though the nature of these investment initiatives are different, ranging from buying new machinery to recruiting new sales representatives, as there are only limited resources that can be dispensed, it is critical to categorise the projects and measure them with key indicators. The decision tool is a way to compare them as alternative investment options in order to decide which will generate the best returns.

> 'so what we are saying in the decision tool is how technically confident are we? And how commercially confident are we? And then how would this impact on our latest group plan? Is this going to negatively affect the group plan? Then we have a product scoring; there are a number of criteria that will pick up some of the key numbers and score it, that helps our global management team to say we definitely want to do that, or put that one back down because its score is relatively low.' – Finance Manager

**The rolling forecast** is based on the past 12 months' sales revenues, costs and other relevant information (rolling up to date), plus all the foreseeable changes, both confirmed and unconfirmed, and their impact on the future (looking three years ahead) to give forecasts of organisational performance. This is updated on a monthly basis. The main objective here is to constantly check the forecasts made with the latest information on progress of various projects and to make and encourage more and more accurate predictions as the forecasts roll forward.

Since the rolling forecasts are not for financial reporting purposes, they are regarded by the participants as 'inspirational' in nature. Finance staff point out that these rolling forecasts serve as a 'brainstorming' mechanism, which brings together all the functions to set potentially 'stretch' targets for the future. This helps finance detect and raise questions about the future changes and brings functions together to solve any potential problems. For example, sales growth may be projected to reach a certain level, which would be likely to cause capacity problems. If the capacity problem is imminent, this may trigger the discussion of the purchase of more machinery or manipulating production requirements or stock levels within the supply chain.

**GEM** is a top-level summary document produced by finance for the WM Board. Similar to the decision tool, GEM categorises projects into 'Brand building', 'Commercial', and 'Supply chain' with key performance indicators (KPIs). GEM pays special attention to brands, all major brands having separate reports produced. Main indicators on these reports include sales performance, gross profits, operating profits, growth, return on capital, and selling and administration costs. One limitation of GEM, acknowledged by the accountants, is that these KPIs are mainly financial measures. But the rationale behind GEM, as explained by the financial director, is that most of these key measures can also be obtained from major competitors, and comparisons can be made conveniently across the industry. Therefore, GEM is very competitor-focused and is designed to provide the WM Board of directors with a broad view of the organisation-wide performance compared to its main rivals. Over the years, some of the measures have been removed and some new ones have been included to reflect the strategic priorities of top management.

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