

THE UNIVERSITY OF HULL

**INVESTIGATION AND THEORIZATION OF THE ADOPTION OF STRATEGIC
MANAGEMENT ACCOUNTING (SMA) PRACTICES IN LARGE U.K
ORGANIZATIONS**

-Survey and Case Evidence

**Submitted for the degree of Doctor of Philosophy
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By

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Abstract

Keywords: Strategic Management Accounting, strategy, management accounting change, case study, institutional theory

This study focuses on an investigation of the recent development of SMA practices in large UK business organizations. SMA is introduced as an evolving concept and its development over the past two decades are summarized. To facilitate a more comprehensive understanding of SMA practice, it is argued that better understanding of SMA practices requires researchers to recognize the broad themes embedded in strategy and management accounting change literature.

This study is defined as exploratory in nature, reflecting the researcher's intention of offering in-depth understanding of SMA practices in their organizational, economic and social contexts. The research work is conducted in two major steps. A questionnaire survey was employed as the first step to obtain an overview of the adoption of SMA practices in a small sample of large UK companies. As a second step, two large companies, ULE and Meditech, were subject to further case study research.

In analysing the case evidence, a neoinstitutional framework is employed to provide an explanation of the accounting changes which occurred in the adoption of SMA in organizational settings. Both case studies shed light on the evolution processes of SMA practices and the successful management

accounting changes towards a greater strategic orientation. The external environments of both case companies seem to indicate that current SMA practices are strongly framed and driven by factors at the macro level, at which various and considerable pressures of convergence currently are at work. But the research also suggests that similar influences from the external environment do not lead to a similar process of SMA adoption in the case companies. Changes are also shaped by the intraorganizational battling of different interests and the power that exist within the companies.

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Chapter 1 Introduction

1.1 Research motivation

This thesis represents an exploratory research in the field of Strategic Management accounting (SMA).

The complexity of political, regulatory, and technological changes confronting most organizations has made organizational change and adoption of management innovations important research issues of recent decades (Greenwood and Hinings, 1996). The ability to cope with often dramatically altering contextual forces has become a key determinant of competitive advantages and organizational survival (D'Aveni, 1994). These changes in organizational environments foster an interest into the research of management accounting change (Dent 1996; Hansen 1998; Hoque, Mia et al. 2001; Douglas 2002; Krishnan, Luft et al. 2002).

Both academia and practitioners argue that SMA represents an efficacious approach to the problems emanating from a changed competitive and technological environment (Simmonds, 1981, 1982; Bromwich, 1990). The external and future focus and long-term orientation of SMA practices are regarded as critical to retain credibility of management accounting (Burns and Baldvinsdottir, 2005), and to gain strategic importance of management accounting operations. It has also been suggested that SMA involves a greater contribution by accountants to strategy formulation and

implementation and a move away from purely financial concerns to wider business issues (Shank 1989; Shank 1996; Roslender 1995; Roslender and Hart 2003).

Despite these recent promotion efforts on SMA, survey evidence has shown low adoption rates of SMA practices in organizations (Chenhall and Langfield-Smith, 1998c; Guilding et al, 2000). There was also evidence of reported SMA failures in organizations (Scapens and Roberts, 1993; Malmi, 1997) and management accountants' general resistance to change (Granlund, 2001; Burns and Baldvinsdottir, 2005). There seems to be a gap between the perceived 'high' value of SMA practices and its 'low' use in practice. In exploring the cause of this situation, Tomkins and Carr (1996) noted SMA lacked its own literature in addressing the relationship between management accounting and corporate strategy and they observed that no agreed and well specified framework existed. Roslender and Hart (2003) argued that despite more than two decades of development, there is still little or no agreement about exactly what constitutes SMA.

In this study, the researcher argues that to advance the research on SMA, several research gaps need to be addressed.

1. Many researchers have taken the adoption of certain SMA techniques as the adoption of SMA methodology. SMA has largely been promoted as individual techniques, such as benchmarking, and customer cost assessment. However, academically promoted SMA terminology has seen very limited

recognition in organizations. It is therefore more important to recognize whether the organizational management accounting practices exhibit any essential SMA characteristics, such as market-orientation, customer-orientation and future and long-term orientation.

2. SMA researchers have recognized only in a limited fashion the multiplicity of ways of seeing strategy (Bhimani and Kestvarz, 1999; Guilding, et al, 2000). The conceptualization of strategy (Porter, 1985) as a ploy to outwit the competition still dominates the main stream SMA research (Simmonds 1981; Simmonds 1986). However, apart from pursuing these generic strategic objectives, such as cost leadership and differentiation, it is argued the organizations' strategic objectives can be very specific and context-related. Recognizing how the adoption of certain SMA practices assists the pursuit of these specific strategic objectives is important to determine the value of SMA practices.

3. Current SMA research has presented a static picture of SMA practices, such as what SMA practices have been implemented in organizations and whether management accountants are involved in the strategic management process. However, this research does not help us understand the incentives/intentions behind the adoption of SMA practices, nor does it offer insights into why many implementations of SMA practices have failed. Therefore, there is a need to understand the implementation process of SMA practices, i.e. the motivation behind the adoption of SMA, the change process the organizations have been through, and the internal and external factors

that influence the adoption and result in final success or failure. These new research requirements challenge the conventionally adopted survey method in management accounting research and call for case studies to explore the process of management accounting change (Innes and Mitchell, 1990; Young, 1999).

4. The 'conventional wisdom' of management accounting research relies heavily upon neoclassical economic theories, which were not designed for understanding the complex issues associated with management accounting operations (Walker 1998). A monolithic economics-based paradigm would limit the research into the rich contents of management accounting in its social, organizational and behavioural contexts (Hopwood 2002; Lukka and Mouritsen 2002). As the management accounting operations in organizations are influenced by human, regulatory and organizational culture factors, it is believed that the spread of research paradigms (Economics, Sociology, and Psychology, etc) represents a greater degree of research freedom with which better understanding of SMA phenomena can be achieved. Therefore, theories developed in other research paradigms should be encouraged to be applied in exploring SMA practices to enrich our understanding towards complex management accounting operations.

1.2 Research Objectives

Based on the research limitations mentioned above, three major research objectives for this study are outlined below.

Objective 1: What is the current situation of SMA development and implementation in large UK companies in general and case companies in particular? How useful are they in helping the organizations achieve their strategic objectives?

As revealed in the SMA literature, contrasting evidence was found regarding the perception of the usefulness of the SMA practices. This has been reflected in the low adoption rates and perceived merit scores (Guilding, et al, 2000). It is of interest to many SMA researchers to know the current state of the implementation and utilization of the various SMA practices ,i.e., how popular are the various SMA practices, how helpful are those practices in helping the organizations achieve their strategic objectives (Ittner, Larcker et al. 2003; Roslender and Hart 2003; Said, Hassabelnaby et al. 2003).

Related to the first objective, the usage and potential of a number of SMA practices will be appraised. The following questions will be answered:

1. What are the usage rates and merit scores of a variety of SMA practices?
2. When compared to the survey results of 2000 (Guilding, et al, 2000), to what extent has the development of SMA practices taken place?
3. What is the relationship between the different SMA practices and the strategy typologies?
4. How popular is the term SMA and is it used and understood in practice?

Objective 2: What is the extent of involvement of management accountants in SMA practices? Has their positioning changed in terms of strategic importance?

Johnson and Kaplan (1987)'s argument of 'lost relevance' triggered off a major discussion regarding the positioning of management accountants. Many researchers argue that, to be relevant again, management accountants need to change their orientations from 'bean-counting' (Friedman, 1997) to 'business consulting' (Burns, et al, 1999). There is also evidence that there is a transition of management accountants from a 'historian and watchdog' emphasis to the position of 'advisor and change agent' (Granlund and Lukka, 1998; Bhimani and Kershtvarz, 1999). Bromwich and Bhimani (1994) agree that SMA demands new skills and aptitudes of accountants that extend beyond their usual areas. Cullen et al (1999) also commented that for management accountants to contribute to strategic issues, they need to develop new skills in terms of personal relationships with other management functions and business knowledge as well as maintain their financial and analytical skills.

Related to the second objective, the way in which management accountants get involved in the strategic management process and use SMA practices to promote their strategic importance and reinforce their strategic orientation is investigated in both survey and case studies. The following questions will be addressed.

5. What is the relationship between the adoption of SMA practices and the degree of strategic involvement of management accountants?
6. What kind of role do management accountants play in the strategic change processes?
7. Have the perceptions of organizational actors concerning the functioning and positioning of management accountants changed along with the adoption of SMA practices?

Objective 3. How do SMA practices become adopted in case companies, and what factors facilitate or impede the adoption of the SMA techniques?

The research on SMA to date has been mainly on a static depiction of whether certain SMA practices have been adopted by companies and/or whether management accountants take a strategic perspective. However, there is evidence that management accounting faces organizational tensions, conflicts, and resistance, which quite often result in failure or merely 'ceremonial' conduct of new SMA practices when organizations initiate accounting change (Scapens and Roberts, 1993; Malmi, 1997; Granlund, 2001; Burns and Scapens, 2000). To achieve a better understanding of SMA adoption in organizations, a close examination of the processes of management accounting change and conceptualisation of how SMA practices evolve over time within the organizations is important. However, comparatively little research attention has been given to understanding management accounting change processes through which new practices

emerge or fail to emerge (Burns and Baldvinsdottir, 2005). The success of SMA practices, as changes to the conventional management accounting orientations, depends on how well their behavioural and organizational implications are dealt with (Shields, 1995). The link between management accounting change and its collective context, the wider social and institutional forces that surround it, remains an intriguing area of study (Granlund and Lukka, 1998). In light of this, the study intends to examine how the adoption of SMA practices is constructed in the case companies in accordance with implicit and explicit societal ideas and organizational implications.

Related to the third objective, detailed investigation of the management accounting changes in the case companies is focused upon. Both external / environmental factors and intra-organizational factors are taken into consideration to discover how they have influenced the adoption of SMA practices. The following research questions are addressed here.

8. What kind of management accounting change processes have the case companies gone through? In terms of change pace and influence, are they evolutionary or revolutionary?
9. What factors influence the adoption of SMA practices, both outside and inside the case companies? How do these factors interact to facilitate or impede the management accounting change?

1.3 Research Methodology

The overall research strategy used in this study combines a pilot questionnaire survey and two explanatory case studies. The rationale behind this research design is that enquiries into SMA phenomena are still at a relatively exploratory stage. Since Simmonds first coined the term of SMA (1981), two decades on, many management accounting researchers still claimed that there was still no agreed conceptual framework outlining what constitutes SMA (Tomkins and Carr, 1996; Roslender and Hart, 2003).

Consequently, the ultimate purpose of this study is to develop a more comprehensive understanding of the observed SMA practices in specific organizational settings. Qualitative research suits this research purpose well as it emphasizes facts rather than quantification in the collection and analysis of data.

The research design for this study will help understand SMA practices as organizational behaviours and interpret the meanings of these behaviours in their specific organizational contexts. Following the interpretive route, case studies serve as the main body of this research work, but qualitative strategy does not ignore the value of quantification. A cross-sectional questionnaire survey is conducted in this study. It is argued that the survey can serve as a foundation for this research work and provide valuable information for the further inductive research processes, i.e., in helping the gathering of ideas to guide case studies. After the analysis of the survey feedback, two case studies were identified. Several issues identified from survey results were

further explored in the case studies. The rationale behind this research design of adopting multi-methods can be justified from two aspects. First different methods can serve different research purposes, as a survey can offer a general picture, the case studies can further examine the details (Saunders and Lewis, 2000). Second, using multi-method approach enables triangulation between different research methods to take place to further reinforce the credibility and validity of the research findings (Jick, 1979).

Stage 1

A questionnaire survey served a preliminary role in answering the research questions relating to the current situation of various SMA practices' adoption and perceived values among large British firms.

This questionnaire was developed from the work of Guilding et al (2000). To reflect new trends emerging in SMA literature, more SMA techniques are included, expanding from 12 in 2000 survey to 16 in total. Two new measurement variables pertinent to the application of SMA practices are also added. These include the participation of accountants in the strategy process, and strategy typology of the organizations. Correlation tests between these variables and the SMA practices are conducted to offer insights on research objective 1 and 2.

Stage 2

As the second step, this research pays attention to the management accounting change processes the organizations have gone through, i.e., to tease out the emergence of the SMA practices and the dynamics around the role change of management accountants in organizational settings (Scapens and Bromwich ,2001).

Two case studies are used to describe innovative management accounting practices in the organizational settings in which they are embedded. They also facilitate a detailed examination of changes which happened within the management accounting function and the relation between these changes and its organizational and environmental context.

An interpretivist perspective is adopted which looks for theoretical generalizations, 'transferability' to other cases (Luft and Shields, 2002). The research attention on these cases is therefore to achieve a thorough understanding of how SMA practices interact with the companies' specific settings, and how the management accounting changes have been mobilized in the case companies.

1.4 Research contributions

This study makes four major contributions to the recent literature on management accounting change.

Firstly, the research offers an updated report on the current adoption of SMA practices in the large UK companies. By employing the questionnaire design of Guilding et al (2000), this study brings up to date the usage rate and the perceived value of a number of SMA practices. By providing a picture of the change of the adoption status of the SMA practices compared to the survey result of Guilding et al (2000), the survey conducted in this study can not only inform the SMA researchers the latest trends in SMA adoption, but also flag up important issues that need to be further explored in case studies, e.g. why certain practices are gaining more and more popularity, while some others' perceived value fall from high to low.

Secondly, SMA studies conducted in the past had given the main focus on how popular the various SMA practices are in a given population of organizations, this kind of static investigation did not present sufficient explanation on the issue of why certain practices are popular or not. In addition, most of these static investigations relied upon cross-sectional survey method (Guilding, 1999; Guilding, et al, 2000; Chenhall and Langfield-Smith, 1998b). They could not offer adequate insight on how SMA practices are influenced by organizational contexts and organizational actions. However, many researchers believe that understanding of the organizational context is very important in explaining the success or failure of management accounting change (Malmi, 1997; Covalleski, 1993, 1996; Burns and Scapens, 2000; Granlund, 2001). This has become an important theme of the contemporary interests of management accounting research. This study thus pays close

attention to the investigation of how the adoption of SMA practices is influenced by the organizational environments and organizational actions.

Thirdly, this study introduces a neoinstitutional framework, which was initially designed by Powell (1991) and later further developed by Greenwood and Hinings (1993, 1996). Compared to the conventionally utilized 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), the neoinstitutional framework has made explicit linkage between organizational contexts and organizational actions; and embraced more comprehensive consideration of human actors. Therefore, it has the potential to go behind the rules/routines framework (Burns and Scapens, 2000) to make direct enquires about the incentives for management accounting change. The researchers also point out that the neoinstitutional theory employed in this research is a 'sensitizing' device in that it offers 'a general sense of reference and guidance in approaching empirical instances' (Blumer, 1954, p.7), and it gives a general sense of what to look for and acts as a means to uncover the richness of the organizational field.

Fourthly, the research design employed for this study focuses on case studies, which help understand management accounting change as a set of organizational behaviours and interpret the meanings of these behaviours in their specific organizational contexts. Lukka and Kasanen (1995) stated that

management accounting as a social construction implies an absence of trans-temporal and trans-spatial regularities in any unconditional sense. Therefore, detailed examination of the actual practices within a specific setting can be very valuable. Ahrens and Dent (1998) also argue that analyzing managerial ambiguities, tensions, and contradictions is a major opportunity offered by field research methods, as they permit an analysis of suggestive themes and interpretation, and can raise the different voices around accounting in organizations. It is precisely this type of analysis the researcher pursued in this study, which responds to the numerous calls over recent decades on theoretically informed case study research (Atkinson et al, 1997; Shields,1997; Scapens, 2001,2006) to facilitate detailed examination of changes within management accounting and between it and its organizational and environmental context.

1.5 Ethical Consideration

All information collected from the business organizations during the process of this study is treated in a strictly confidential manner. Mutual agreements concerning research access, data collection, and material publication have been reached between the researcher and the organizations concerned. For the purpose of data protection, the names of case study companies and business sensitive information are disguised and all the organizational charts and relevant figures are for illustration purpose only.

1.6 Thesis Structure

This thesis is divided into ten chapters. This chapter introduces the subject area and the issues of concern. It clarifies the objectives of this study and explains the importance of these research enquiries. A brief introduction to this study's methodology and research design is also provided.

Chapter 2 provides a systematic overview of literature in the area of SMA. It introduces the SMA as an evolving concept and summarizes its development achieved over the past two decades. Two relevant research topics are also introduced in this chapter, namely, strategy and management accounting change.

Chapter 3 discusses the philosophical grounding of this study. Given the exploratory nature of SMA research, this study is viewed as primarily explanatory, qualitative, interpretive and constructive. Conventionally adopted economic theories are compared with the emerging institutional theories. The employment of institutional theories in this thesis reflects the interests of many researchers who view management accounting practices as socially constructed.

Chapter 4 provides an overview of the research strategy and research design for this study. This research work is conducted in two major steps. A small questionnaire survey was employed at an early stage to obtain an overview of

the adoption of SMA practices in the large UK companies. As a second step, two well-known companies, ULE and Meditech, were chosen for further study.

Chapter 5 presents the interpretation of the survey findings in light of the research objectives of this study. Based on the survey evidence gathered, the research suggests that the SMA practices continue in a trend of experiencing widely ranging degrees of application, but there is still scope for further employment of SMA practices. Furthermore, it is found that the use of the term “strategic management accounting” in organisations and the appreciation of the term amongst practicing accountants is limited. Correlation tests have been conducted between the SMA practices and several contextual variables. These correlations offer support to many previous studies.

Chapter 6 and 7 presents the case description of ULE and Meditech. Chapter 6 offers a detailed account of the experience of the adoption of SMA practices in ULE. Organizational actors’ interests and powers towards these new SMA practices are highlighted. In general, by participating in business partnering operations, management accounting was taking a progressive step beyond monetary measurement. Non-financial, business-sensitive measures have become a part of contemporary management accounting apparatus.

Chapter 7 offers the case description of Meditech. In this company, the management accounting had demonstrated its success in this company in blending into the new decision-making and commercial support role. The finance function was transformed from a traditional monitoring and control

perspective, to a more business and support-oriented perspective. The adoption of SMA, however, has not been a straightforward matter. Organizational resistance, ceremonial conducts and power battling are issues that appeared to influence the adoption of SMA practices.

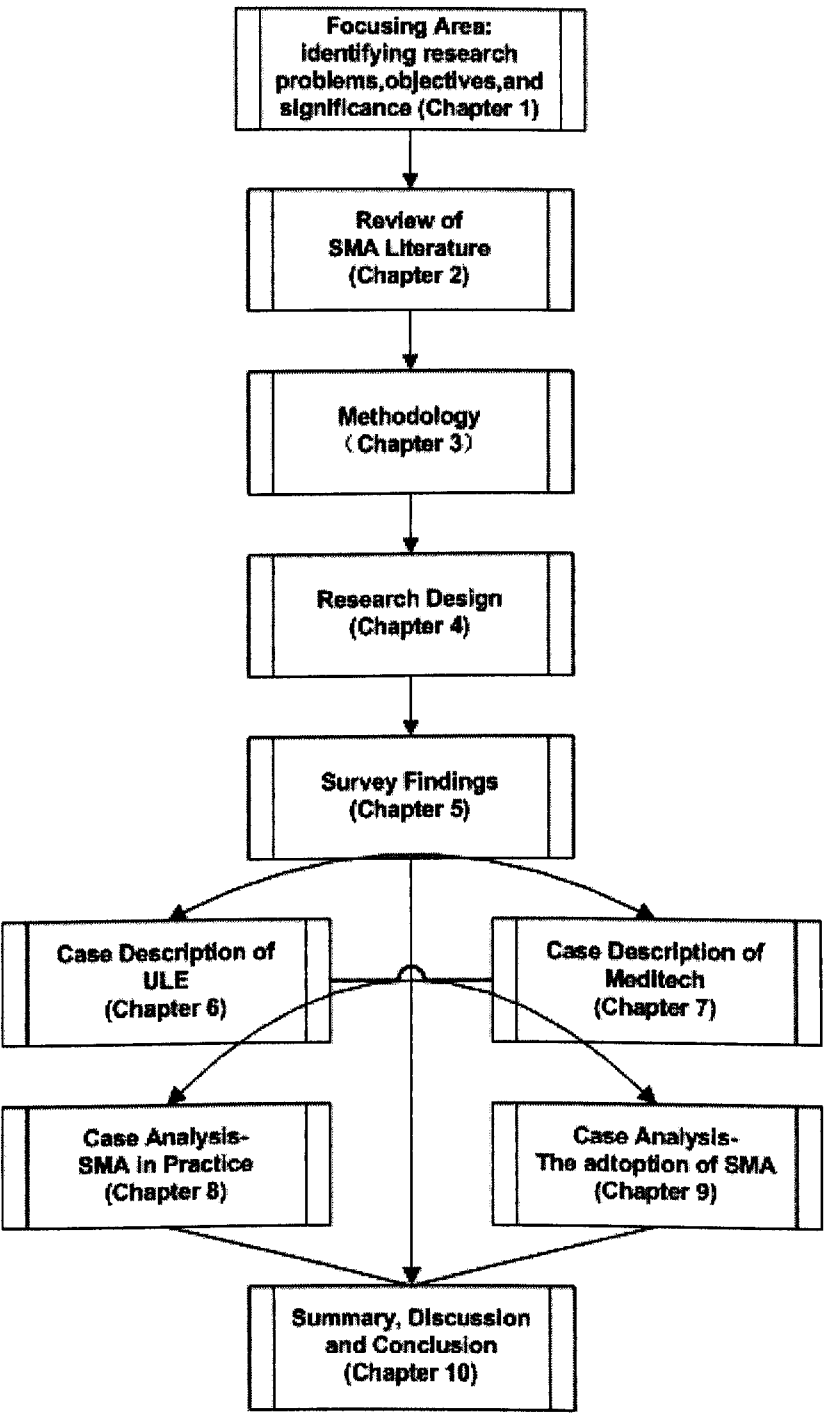
Chapter 8 and 9 present the empirical results of this study. In chapter 8, the status of the SMA practices employed in both case companies is articulated. Attention is also paid to the involvement of management accountants in the strategic management process in both companies. These findings from the two case companies' SMA employment are valuable in offering insights on the first two research objectives, e.g. the extent of SMA adoption and perceived value of SMA practices.

The interpretation of the adoption processes of the SMA practices in both case companies forms the main body of chapter 9. In this chapter, a systematic examination of both the organizational contexts (external environments) and organizational actions (Intraorganizational dynamics) is provided based on the neoinstitutional framework.

Chapter 10 provides an overview of the whole study. After reviewing the full structure of this study, this chapter lists the main findings distilled from the survey and case study evidence. Two main research contributions are highlighted. Also included in this chapter are the limitations of this study. In light of these limitations, several future research directions are suggested.

A diagram of the structure of the thesis is shown in Figure 1-1 below.

Figure 1-1 Outline of the Thesis



CHAPTER 2 LITERATURE REVIEW

2.1 Introduction

Organizations are experiencing increasing challenge due to changes in global economies, and increased competition. These challenges are made even more complex by the rapid diffusion of knowledge (Dent 1996; Hansen 1998; Hoque, Mia et al. 2001; Douglas 2002; Krishnan, Luft et al. 2002). Academics and practitioners have suggested repeatedly that in order to be relevant in the new environment accountants should reposition their roles within organizations to have a greater strategic focus and take part in strategic management activities (Roslender and Hart 2003; Siegel, Sorensen et al. 2003; Burns and Baldvinsdottir 2005). The notion of 're-constituting' management accounting to become more 'strategic' has been gradually adopted by organizations. Current evidence shows that 'routine' accounting tasks have been undertaken more and more by centralized teams of specialists or outsourced, and more time of management accountants has been devoted to strategic-support roles (Granlund and Lukka, 1998).

During the past two decades, the proposals for SMA have generated significant research interest (Tomkins and Carr, 1996; Shields, 1997; Guilding et al, 2000). SMA has been presented as the common-sense approach to the problems emanating from a changing competitive and technological environment. Some management accounting researchers have seen SMA as implying a greater contribution by accountants to strategy formulation and

implementation (Shank 1989; Shank 1996). Some have viewed it as suggesting accountants move away from purely financial concerns to larger business issues (Kaplan and Norton, 1996; Roslender and Hart, 1998). Others have seen it as an opportunity to make accounting relevant again so as to elevate its standing relative to other functions within the organization (Keating and Ansari, 1997; Simmonds, et al, 1997). SMA is also expected to provide information for decision making covering both internal and external environments of the business (Smith 2002; Said, Hassabelnaby, et al. 2003).

In line with the research objectives outlined in chapter 1, this literature review consists of four sections. The first section is dedicated to the discussion of the development of SMA practices over the two decades since the concept of SMA was proposed. In this section, the development of SMA practices and the progress of SMA research are appraised from several aspects, including the adoption rate, the relationship between the adoption of SMA practices and the organizations' performance, and the involvement of management accountants in strategic management activities. In the second section, because of the close link between SMA practices and organizational strategy, the various themes around the concept of 'strategy' and 'strategic change' are discussed. The third section focuses on a discussion of management accounting change, as the adoption of SMA practices can be largely seen as a particular form of management accounting change (other management accounting changes include the adoption of new management control systems, the implementation of new costing techniques, etc). The issues discussed in the literature of management accounting change can potentially

help achieve a better understanding of the change processes of SMA adoption. Finally, a summary is provided.

2.2 The evolution of Strategic Management Accounting (SMA) concepts

2.2.1 The 'lost relevance' of conventional management accounting operations

Traditional management accounting has been regarded as having lost its relevance (Johnson and Kaplan, 1987; Johnson 1992; Jones and Dugdale 1998) in helping organizations respond to change and get ahead of their competition. During the mid-1980s, Kaplan assembled a powerful critique of contemporary management accounting that incorporated several lines of argument (Kaplan, 1983, 1984, 1985, 1988; Johnson and Kaplan, 1987). Firstly, he claimed that there are few signs that management accounting has evolved to embrace new techniques necessary to complement the rapid progress in the new business environment. There is lack of appropriate means of measuring and reporting to management concerning the productivity, quality, changing market conditions, or product leadership. The second element of Kaplan's critique reflects his view that for the past 60 years or so management accounting had become increasingly subordinate to the needs of financial accounting, which had given rise to a debilitating short-termism and strong financial accounting focus. Kaplan's third set of

observations focused on the role played by accounting academics. He argued that too much management accounting research is divorced from actual management accounting practice. Many researchers have spent their time constructing rather simplistic, analytical, economics-based models of the outside world. Consequently, there has been a general failure to identify instances of progressive practice; much 'best practice' has gone unexplored by academics resulting in the sterile situation exemplified by both the research literature and the textbook tradition. Thus, field studies designed to bridge the gap between theory and practice are of critical importance (Kaplan, 1986; Bruns and Kaplan, 1987).

According to Kaplan's observation, the progress of management accounting has been stalled and as a result much of its relevance has been lost. The emergence of new technologies, the debilitating dominance of financial reporting and the sundry failings of the academy served to reinforce Kaplan's belief that it was time to revolutionize management accounting.

2.2.2 The emerging SMA concepts

There have been calls for accounting to change to meet the information and decision making demands of organizations in a modern environment. One way to regain this 'lost' relevance is for management accounting operations to adopt a more 'strategic' approach (Keron, 1987; Bromwich, 1990; and Roslender, 1995, 1996). SMA came to its prominence in the late 1980s as a range of innovative management accounting practices and approaches with a

strong emphasis on its strategic focus (Simmonds, 1981). Strategic accountants are expected to concentrate not only on financial but also on non-financial information, the future and both the internal and external environments of the business (Wilson, 1991; Brouthers and Roozen, 1999).

The term SMA had been introduced into the management accounting discipline by Simmonds (1981, 1982). Simmonds used this term to argue that management accounting efforts should be increasingly devoted to collecting and analysing data on costs, prices, sales volumes, market shares, cash flows and resource utilisation for both a business and its competitors. This early statement about SMA entailed a characteristic external focus. As businesses were increasingly forced to compete with each other for market share, Simmonds felt that it was to the advantage of management accountants to embrace the challenge of providing the 'strategic' information required in the pursuit of competitive advantage.

Adoption of a strategic perspective in management accounting operations was further developed by Bromwich in his 1989 research report – *Management Accounting: Evolution not Revolution* (CIMA, 1989). As one of SMA's main academic advocates at that time, Bromwich (1988, 1990, 1991, 1992; see also Bromwich and Bhimani, 1989, 1994) believed what differentiated SMA from other management accounting developments was not only its external orientation to markets and competitors, but also that it sought to :

'evaluate the enterprise's competitive advantage or value added relative to its competitors and to evaluate the benefits that enterprise's products yield over their life time to customers and the benefits which these sales yield to the firm over a long decision horizon' (p.9 Bromwich and Bhimani, 1999).

Therefore, Bromwich embraces a more expansive concept of SMA. What is new to the SMA concept is concern for the customer, and an explicit emphasis on the long term. Several years later, in a second CIMA research report, *Pathways to Progress*, Bromwich and Bhimani (1994) offered the following definition of SMA,

'the provision and analysis of financial information on the firm's product markets and competitors' costs and cost structures and the monitoring of the enterprise's strategies and those of its competitors in these markets over a number of time periods (p.127).'

SMA therefore is claimed to release accounting from the factory floor and allow it to aid directly in meeting new market challenges. A related technique, known as strategic investment appraisal, is commended by Bromwich (1994). What is particularly interesting about this strategic investment appraisal is its heavy reliance on non-financial information, which has become one of the main definitive features of SMA practices. The emphasis on non-financial

measures has been adopted and made explicit in CIMA official terminology, which defines SMA as,

'A form of management accounting in which emphasis is placed on information which relates to factors external to the firm, as well as non-financial information and internally generated information'-CIMA website.

2.2.3 The conceptualization of SMA in this study

The changes in definitions reflect the fact that SMA is an evolving concept. Despite these early efforts at delineating the boundaries of SMA, Tomkins and Carr (1996) observed that no agreed and well specified framework for SMA currently existed. But the themes highlighted above are useful to identify what constitutes a SMA practice. Bjørnenak and Olson (1999) suggest that SMA techniques can be distinguished from conventional management accounting techniques from a design characteristic point of view, as SMA practices show greater diversification in both scope and system dimensions. The scope dimension takes into account what should be accounted for and for what period of time; the system dimension focuses on the link between the users of the system and the design of the system, i.e. whether the management accounting model explicitly takes into account of the user of the model and his/her information needs (p.328, Bjørnenak and Olson, 1999). Following their argument, the conventional management accounting system does not adopt a long-term, future-orientated stance, nor does it have a competitive or

customer focus. With respect to management accounting's time frame, the financial year dominates the conventional management accounting operations. With respect to the inward/outward distinction, the conventional management accounting operations are primarily inward-orientated. In addition, the conventional management accounting operations tend to be financially oriented, placing great emphasis on financial measures. In contrast, SMA draws heavily on non-financial measures. For example, TQM, BSC, customer-related, and competition-related practices all rely on measures of a non-financial nature (Seal, 2001). Roslender et al (1998) believe non-financial information, in the form of soft number, e.g. on product appeal or brand loyalty, will inevitably constitute an important part of the portfolio of SMA measures. It is argued by many researchers (Perera, 1997; Ittner and Larcker, 1998; Vaivio, 1999; Smith, 2002) that the new emphasis on non-financial measures is a necessary response to the challenges of managing in new environments which involve new patterns of competition.

To summarize, SMA practices not only give emphasis to products, but also take into consideration competitors and customers. SMA seeks to produce a range of information from these three foci with a long-term and forward-looking perspective, combining both financial and non-financial measures.

2.2.4 Strategic Management Accounting Practices

Below 16 SMA techniques are identified, based on the criteria above, through the literature review of the major accounting scholarly journals in U.S and U.K.

i) Attribute Costing. Drawing on Lancaster's (1966, 1979) proposition that products are comprised of a package of attributes which constitute commodities that appeal to consumers. Bromwich (1990) promotes the notion of viewing product attributes as cost objects. Examples of product attributes include operating performance variables, reliability and warranty arrangements, the degree of finish and trim as well as service factors such as assurance of supply and after sales service. Attributes differentiate products and the matching of a product's attributes with the tastes of consumers determines a firm's market share. The marketing orientation underlying attribute costing warrants its inclusion as an example of SMA.

ii) Brand Valuation. Brand valuation has recently been the subject of considerable financial accounting debate. When a management accounting perspective is taken on brand valuation, its potential as a measure of marketing achievements in a strongly branded company becomes apparent (Guilding and Moorhouse, 1992; Guilding and Pike, 1994). The strategic impact of the brand valuation exercise would appear to be dependent on, amongst other things, the valuation method used. Guilding and Pike (1994) found that when the valuation method employed is similar to that developed by Interbrand, strategic implications are manifest. This method involves combining projected brand earnings (an accounting-orientated measure) with a multiple derived from the brand's strength on strategic factors such as the nature of the brand's market, its position in that market and its level of marketing support. A major implication claimed for this exercise is the dialogue that it promotes between the marketing and accounting functions.

iii) Competitor Cost Assessment. Competitor cost assessment is a widely-discussed SMA practice. Amongst its advocates are: Bromwich (1990), Jones (1988), Porter (1985), Simmonds (1981) and Ward (1992). The significant attention commanded by competitor cost assessment may result partially from the increased incidence of technologically-advanced investments. Jones (1988) provides a persuasive case that the long-term commitment associated with such investment and the implied pursuit of improved competitive position, heightens the need for awareness of competitors' costs. He outlines a systematic approach to competitor cost assessment that involves, inter alia, appraising competitors' manufacturing facilities, economies of scale, governmental relationships and technology-product design. Further to these approaches, Ward (1992) describes "indirect sources" of competitor information. Examples of such indirect information sources include: physical observation, mutual suppliers, mutual customers and employees (particularly ex-employees of competitors).

iv) Competitive Position Monitoring. Competitive position monitoring, as advocated by Simmonds (1986), represents a more holistic approach to competitor appraisal. It broadens the analysis to include appraising major competitors' sales, market share, volume, unit costs and sales. Simmonds sees the breadth of these accounting measures as providing further competitor insight than that resulting from an appraisal based simply on market share. He notes that an increase in a competitor's cost per unit may initially appear favourable. If this increase has resulted from advertising devoted to brand strength development or from investment in new product development, however,

the changed cost structure may be more suggestive of the competitor securing a stronger rather than weaker competitive position.

v) Competitor Performance Appraisal Based on Financial Statement. Moon and Bates (1993) describe an approach to competitor performance appraisal which is based on published financial statement interpretation. The specific nature of the approach to data collection evident in this mode of SMA, has given rise to its separate consideration here. The significance of this specificity is underlined by the fact that, unlike the approaches already considered, published financial statement interpretation involves techniques that are familiar to traditionally-trained accountants. Moon and Bates outline an analytical framework that can be applied to a competitor's published statements as part of an appraisal of key sources of competitive advantage. This analysis can include monitoring trends in sales and profit levels as well as asset and liability movements. Moon and Bates claim that strategically significant insights can be derived from an appropriately conducted analysis of a competitor's published statements.

vi) Life Cycle Costing. Life cycle costing has been the subject of several commentaries, e.g., Berliner and Brimson (1988), Shields and Young (1991), Susman (1991) and Wilson (1991). Wilson demonstrates diagrammatically the strategic implications arising from the adoption of this perspective. Rather than appraising costs on an annual basis, the relevant time frame in life cycle costing is dependent on the length of the stages in a product's life. These stages can include design, introduction, growth, maturity and decline. Commentaries on this

approach to costing point out that it can counter short-termist management tendencies. The pressure stemming from a traditional accounting approach that recognizes the per annum loss accumulating during the design phase of a product's life may result in premature market introduction. Management embracing the philosophy of life cycle costing, however, can be expected to recognize the importance that a thoroughly executed research and design phase carries for the product's lifetime profitability.

vii) Quality Costing. Another example of a strategically-orientated approach to costing is provided by cost of quality analysis. Product or service quality, whether perceived or real can be a source of competitive advantage. Quality costs have been classified as prevention, appraisal and failure costs (Heagy, 1991). These costs are interrelated, a fact that suggests management might monitor them as part of a policy of securing an optimal level of relativities. It is generally held that increased preventative expenditure can result in considerable savings and competitive advantage stemming from reduced failure costs (returns, rework, scrap, lost sales, etc.). The fact that lost sales appraisal requires a high degree of subjective assessment suggests that the primary benefit of this example of strategic management accounting may derive from its attention-directing role.

viii) Strategic Costing. Strategic costing is a widely-used term in much of Shank and Govindarajan's (1988; 1991; 1992; 1993) work. They believe that in order for cost analysis to support the pursuit of competitive advantage, it must explicitly consider strategic issues. Their 1988 study uses a case analysis to

demonstrate the sub-optimal decision that can result from using a conventional costing approach (i.e., an analysis conducted from a "relevant" cost, short-run perspective). Employing an analysis that considers strategic issues and draws on concepts articulated in the marketing and competitive strategy literatures (e.g., product positioning and market penetration), Shank and Govindarajan show how a preferred solution to the case can be derived.

ix) Strategic Pricing. Jones (1988) and Simmonds (1982) discuss strategic pricing in the context of case studies. The more extensive consideration is provided by Simmonds who demonstrates how sub-optimality can result from a pricing decision informed by a conventional accounting analysis based on internally-orientated, historically-based information. He claims that strategic pricing which uses competitively-orientated analysis will result in a better-informed pricing decision. Included in the factors that might be appraised in such an analysis are: competitor price reaction, price elasticity, projected market growth, economies of scale and experience. Foster and Gupta's (1994) survey finding that accounting information's greatest potential use is perceived by marketing executives to be in connection with pricing decisions underlines the importance of separate consideration applied to this mode of SMA.

x) Target Costing. Target costing refers to the process where a product is designed to satisfy a consumer need and a target cost is determined for the product. This target cost is subsequently strived for in order to earn a target profit level for the product. Target costing is implemented primarily during the development and design phases of the manufacturing process. Closely

associated with target costing is Kaizen costing. This approach takes target costing beyond the design and development stages as it is implemented during the manufacturing phase of the product's life. Kaizen costing requires that continuing efforts are made to secure further cost savings. Recent interest in these philosophies stems from their successful implementation in Japan (Sakurai, 1989; Aalbrege, 1991; Monden and Hamada, 1991; Morgan, 1993). However, these philosophies can be classified as strategic management accounting as they move costing away from a quest for accurate monitoring towards a costing philosophy that is forward-looking and closely aligned to a quest for competitive advantage. The external focus underlying these management philosophies becomes evident when it is recognized that they signify market-led costing rather than cost-led pricing.

xi) Value Chain Analysis. Shank and Govindarajan (1992) propose an approach to costing that builds on Porter's (1985) value chain analysis. This approach is referred to as "value chain costing". Porter argues that competitive advantage in the marketplace ultimately derives from providing better customer value for equivalent cost, or equivalent customer value for lower cost. He views the series of activities occurring between a product's design and distribution as links in a chain. From this thinking stems the value chain analysis. This concerns identifying where customer value can be enhanced or costs lowered in a firm's relevant segment of the value chain. Shank and Govindarajan believe that value chain costing provides a useful extension to conventional cost analysis. They show that management accounting's traditional concern with monitoring value-added stops short of a search for latent benefits and potential cost savings

embedded in the firm's linkages with suppliers and customers. To explore such opportunities signifies a paradigm shift away from factors internal to the firm. Shank and Govindarajan also demonstrate how a value chain costing perspective can provide insights into make/buy and forward/backward integration decision-making. Hergert and Morris (1989) also propose a costing system structured around a value chain philosophy.

xii) Customer profitability analysis. A key strategic objective for many companies has been to find ways to enhance customer satisfaction (Howell and Soucy, 1990). From a management accounting perspective, the new way of calculating profit should take into consideration the costs and sales that can be traced to a particular customer. This technique is sometimes referred to as 'customer account profitability'. Howell and Soucy (1990) believe by analysing costs directly assigned to a customer and the activities a customer drives (orders, sales credits, customer support), a company should be able to understand the reasons a customer is unprofitable and take corrective measures(see also Smith and Dikolli, 1995).

xiii) Lifetime customer profitability analysis. Lifetime customer profitability analysis extends the time horizon for customer profitability analysis and includes future predictions of revenues and costs involved in servicing a particular customer. Relationship marketing (RM) regards building and retaining long-term customer relationships as a key marketing asset within the firm (Hunt, 1997; Varadarajan and Jayachandran, 1999). Following a definition of 'customer lifetime value' , which is the present value of the future cash flows

attributed to the customer relationship, Pfeifer et al (2005) argue that lifetime profitability analysis should take into account the time value of money using accounting techniques such as discounted cash flow and traditional *present value* techniques.

xiv) Valuation of customers or customer groups as assets. Hogan *et al* (2002) proposes that the sum of the expected customer value of a firm's current customers is the 'value of the extant customer assets'. When this amount is added to the 'value of potential customer assets' .i.e. the expected value of the firm's future prospects, Hogan *et al* (2002) call the resulting sum 'customer equity'. Therefore, the valuation of customer as assets involves calculation of the present value of all potential future profit streams attributable to a particular customer or group of customers.

xv) Benchmarking. According to Elnathan et al (1996)'s framework, benchmarking is a process used by companies to target key areas for improvement within their operations so they can increase their productivity, competitiveness, and quality. It involves comparing their financial and operational performance against a competitor's performance or comparing the performance of various internal departments against each other. Internal comparisons allow best practices within a company to be identified so departments that are not performing up to speed can find out why and adopt the new standards. External comparisons let companies see how they stack up in the marketplace and discover areas in which they can improve.

Xvi) Integrated performance measurement. Integrated performance measurement normally refers to a measurement system that focuses typically on acquiring performance knowledge based on competition requirements and embraces both financial and non-financial measures. One typical example is the Balanced Scorecard (Kaplan and Norton, 1996). According to Kaplan and Norton, improved financial performance after the implementation of the BSC relies on the identification of key leading indicators of desired financial performance. These leading indicators, typically non-financial in nature, are logically derived from establishing causal links between improved performance on non-financial measures and improved performance on selected financial measures. Employing the BSC method aids managers in the selection of these key indicators through viewing the organization from four different perspectives: financial, customer, internal processes, and learning and growth (Kaplan and Norton, 1996). If the causal linkages between non-financial measures and financial measures are sound, focusing on improving leading indicator measures should lead to improved performance on the selected financial measures.

Identifying a wide range of SMA practices has its benefits. As mentioned earlier, SMA had been defined differently in different studies, reflecting the research emphasis of different researchers. In this study, because SMA is regarded as largely strategy-constituted, the scope is wide and embraces all management accounting activities, from planning, control, to performance evaluation. By listing the popularly promoted SMA practices, the researcher can conveniently interpret SMA as an 'umbrella' concept overarching the various practices. In later conducted field work, this can help the researcher to

form judgment whether the management accounting innovations from the case companies embrace SMA characteristics. This can potentially help bridge the gap between organizations' practical knowledge and unique language, and academically-defined SMA terminology, which has seen very limited usage in real organizational settings (Guilding, et al, 2000).

2.3 Current Status of SMA development and research themes

After more than two decades of development, with the significant interest from researchers, the scope of our knowledge on SMA has expanded its scope noticeably and many relevant topic areas have been examined. This section outlines the most recent developments of SMA research along three dimensions to give a comprehensive picture of the current status of SMA research. The first provides statistical evidence on the popularity of various SMA practices in terms of their adoption rate and perceived merit. The second responds to the issue of whether SMA is effective in helping organizations realize improvements in dealing with the dramatically changing environments; this section also looks into the linkages between the adoption of SMA practices and the organizations' financial and economic performance. Finally, the influences of SMA on the profession of management accounting are explored.

2.3.1 The adoption rate of different SMA techniques

Concurrent with the discussion of SMA practices gaining more and more exposure in academic literature, greater quantitative research has been undertaken on this topic. Researchers following this quantitative research approach mainly focus on examining the extent to which the proposed SMA techniques have been adopted in organizations.

There is still considerable evidence, however, that conventional financial performance measures are regarded as important. In UK, Dugdale (1994) reported that high benefits were received from a formal budgeting process. In U.S., McKinnon and Bruns (1992) found that managers rated budgetary measures as the most important performance measures out of a list of 96 financial and nonfinancial measures. Similar evidence was found in mainland Europe. Cost-based performance criteria are considered very important in Belgium (Bruggeman, Slagmulder et al. 1996) and Denmark (Israelsen, Anderson et al. 1996); Budgetary measures based on standard costing and contribution margins are used widely in Germany (Scherrer, 1996); and financial measures, particularly ROI and profit, dominate performance evaluation in Netherlands (Groot 1996). In Chenhall and Langfield-Smith's Australian study (1998c), the financial performance measures can be seen clearly in the top rankings, such as budgeting for controlling costs (ranked 1), and ROI (ranked 2).

From the survey evidence gathered, SMA practices are experiencing widely ranging degrees of application; and the adoption rates and perceived benefits from innovative SMA practices are comparatively low. For instance, Benchmarking has been advocated as an important way of sensitizing the organization to external performance standards, there is, however, limited evidence on its adoption and benefits derived from its use. In the U.K., Drysdale and Dunn (1996) found that only 13% of 561 financial directors believed that benchmarking had been useful.

In the Chenhall and Langfield-Smith (1998c) study, most of the SMA practices were listed in the low adoption rate cluster, with ABM, VCA and Target Costing ranked at the bottom. This trend is further confirmed by Guilding et al (2000) that the usage rates of the 12 SMA practices appraised scored relatively low. Competitor accounting and strategic pricing appeared to be the most popular SMA practices.

But positive signs of SMA adoption are also identified in many studies. For instance, Guilding (1999) reported the frequency and perceived helpfulness of five competitor-focused SMA techniques. The adoption rates were found to be higher than what might have been anticipated by the researcher. For three of the five practices appraised, the mean scores were above the mid-point of the scale. Burns and Yazdifar (2001) report survey evidence from CIMA members in the UK. The participants were asked to rank what they perceived as the most important techniques for management accountants in the past 5 years and over the next 5 years. Respondents gave clear indication that traditional

tools such as budgets and variance analysis continue to be far and away the most important tools for management accountants in fulfilling their organizational role into the future. The survey results also convey encouraging signs that many organizations will choose to supplement their traditional management accounting techniques with new SMA developments. But the adoption of feed-forward/strategy-led SMA techniques will stand alongside rather than displace traditional management accounting tools.

Apart from the low adoption rate and slow progress, the potential of SMA should not be overlooked. Bhimani (1994) reported that executives were receptive to the use of non-financial measures. Banerjee and Kane (1996) found that 85% of surveyed CIMA members believed that accountants need to integrate non-financial and financial information in their reporting. Chenhall and Langfield-Smith (1998c) confirmed, in their Australian study, that non-financial measures were gaining importance in supplementing the financial measures, as many non-financial measures were included in the high and medium adoption categories. In Guilding et al (2000)'s study, it was found that for all SMA practices appraised, the perceived merit scores were significantly greater than the usage rate scores. For the eight SMA practices where relatively low degrees of usage were found, three ("strategic costing", "quality costing" and "value chain costing"), scored above the mid-point on perceived merits. Based on these findings, Guilding et al (2000) believe that financial measures and traditional planning techniques will retain their importance into the future; but greater future emphasis will be placed on the innovative SMA techniques. In the same vein, Chenhall and Langfield-Smith (1998a) pointed

out in their survey those areas where respondents indicated they would place relatively greater future emphasis were strategic planning, product profitability analysis, long range forecasting, all forms of benchmarking and all activity-based techniques.

A majority of the cross-sectional research has also employed contingency theory to identify relevant internal and external factors influencing the development and implementation of SMA practices. Chenhall and Langfield-Smith (1998a) pointed out that the adoption of the SMA techniques is potentially influenced by company size and business environment. As large organizations may have more resources for the development of innovations, it seems likely that they will experiment more with innovative accounting systems. Guilding et al (2000) signify the relationships existing between the SMA and competitive strategy, strategic mission and company size. The contingency framework has proved to be useful as evidence uncovered suggests that firms with different strategic missions make different use of, and perceive different helpfulness in, SMA practices.

2.3.2 The usefulness of SMA in helping achieve strategic targets

This line of research has been concerned with evaluating the extent to which the use of SMA practices benefits the achievement of an organization's strategic objectives and their effect in terms of financial performance (Gordon and Silvester, 1999; McGowan, 1999). Many management accounting writers argued that if strategy, SMA practices and the environment were aligned, then

the organization is likely to experience an improvement in performance (Mia and Clarke, 1999; Slagmulder, 1996). In contrast, traditional financial-orientated measures are too aggregate and not timely enough to provide effective feedback on how the organization is maintaining product competitiveness and service quality (Vollmann, 1990), and unlikely to be sufficient for assessing how organizations progress strategically (Shank, 1989; Lynch& Cross, 1992).

A small school of studies have examined the linkages between SMA practices and the organizations' market and economic performance. This investigation is important in validating the relation between SMA practices and actual financial outcomes rather than replying exclusively on self-reported measurement satisfaction from the organization concerned. Lingle and Schiemann (1996) suggest that firms can achieve higher performance when they place greater emphasis on a broad set of financial and nonfinancial performance measures. Simons (1987) found that ROI is higher when accounting control systems and business strategy are more closely linked. Chenhall (1997) concludes that firms using both TQM and nonfinancial measures achieve higher performance than those using TQM without the nonfinancial measures. Hirschey (1998) suggests that nonfinancial information on quality issues has consistent positive effects on stock prices. Using data from 140 US financial services firms, Ittner et al (2003) examine the relative ability of various strategic performance measurement approaches to explain firm performance. These approaches include greater measurement diversity, improved alignment with firm strategy and value drivers, and the use

of SMA techniques including BSC, economic value measures and causal business modelling. They found that firms that make more extensive use of a broad set of financial and nonfinancial measures have higher measurement system satisfaction and higher stock returns than those with similar strategies or value drivers. However, little evidence is found that SMA practices are associated with accounting performance measures (ROA, ROCE, and Operating Profit/Sales, etc). This is potentially because the performance implication of SMA systems is more likely to be captured in forward-looking stock market measures than in the short-term historical accounting measures (Iltner, et al, 2003).

Cagwin and Bouwman (2002) investigated the improvement in financial performance that is associated with the use of activity-based management (ABM). Results show that positive synergies are obtained when ABC is used concurrently with JIT, TQM, etc. Also, when ABC is implemented in complex and diverse firms, and when it is used in environments where costs are relatively important, and when there are limited numbers of intra-company transactions, there is indeed a positive association between ABC and improvement in ROI.

The same trends are found in Said et al (2003)'s report, providing evidence on whether non-financial measures yield significant economic benefits. The results indicate that the adoption of nonfinancial measures is significantly associated with higher future accounting-based and market-based returns. However, their results also indicate that nonfinancial measures are not as

effective for all firms. Contextual factors, environmental factors, and strategic plans vary across firms and in turn, adopting appropriate nonfinancial measures determine the performance consequences of such measures. According to the researchers' findings, the benefits of adopting nonfinancial measures is significantly associated with an innovation-oriented strategy, adoption of strategic quality initiatives, and length of product development, industry regulation, and level of financial stress. Based on these discoveries, the authors suggest that the association between the use of nonfinancial measures and firm performance is contingent on the firm's operational and competitive characteristics, and one potential fruitful area for future research is to capture different dimensions of the contextual impact on firm performance.

As observed in the above literature, management accountants have evolved to encompass a more strategic approach that emphasizes the identification, measurement and management of the key financial and non-financial drivers of strategic success. Porter's strategy concept has been influential in this stream of SMA research. The generic strategic objectives outlined by Porter, namely cost leadership or product differentiation, have inspired many SMA researchers to explore the linkage between the organization's strategic positioning and SMA adoption, i.e. how the use of SMA techniques differs between firms pursuing different strategies. Shank (1989) believes that different managerial mind sets underlying differentiation and low price strategies may influence preferences for particular management accounting practices. Thus particular SMA techniques and practices are likely to be more

important, depending on the degree to which particular strategies are emphasized. Chenhall and Langfield-Smith (1998b) went further to suggest that for firms pursuing a differentiation strategy, they are likely to emphasize quality costing, benchmarking, balanced performance measures; and for firms pursuing a low cost strategy, activity-based techniques (ABC, ABM) may provide valuable mechanism for cost control.

However, not all SMA researchers are convinced by Porter's 'generic approaches' to strategy. Cooper (1996) argued that a cost or differentiation strategy might not be sufficient where there is intense competition making it impossible to attain a position of sustainable competitive advantage. Instead, he argued that firms faced with such competition might only be able to pursue temporary competitive advantage. SMA practices, he argued, could help firms focus on making improvements in the triple attributes of price, quality and functionality by providing both feedback and feed forward information, and hence help firms attain continuous temporary competitive advantage. Cooper's study raised concern that the generic strategy concepts/typologies (such as Porter's cost leadership and product differentiation, see Porter, 1980, and 1985) adopted by many SMA researchers might be too simplistic to reflect real business needs and organizational environments.

Some researchers also cast suspicion on whether SMA is the solution for the strategic challenges faced by organizations. Lord (1996) stated that there still seemed to be a paucity of examples of SMA actually being used. Based on a case study observation, she argued that the strategy-critical information may

not be captured in accounting figures, and may not be collected and used by management accountants. Rather, the techniques for gathering and using information necessary for survival in a hostile and competitive environment may be part of the responsibilities of operational management instead of accounting. Though Lord's case (1996) might be anecdotal, it does reflect the unclear positioning and ambiguous judgment concerning SMA practices. Similar evidence is also found in Jazayeri and Hopper's (1999) work. Their case study reported the implementation of a World Class Manufacturing (WCM) program in a company. The management accounting operations however appeared unaffected by the WCM program. The budgetary control and product costing systems run by the accounting department remained intact. No Activity-based drivers were incorporated. There was also a marked decline in the influence of the accounting department. Management accountants became dependent on the production department for cost data and most of the cost management functions in terms of cost reduction, budgetary setting, and problem solving came to lie with the production department. This case suggests there is need to ask whether the organizational change results in different values and new ways of doing things, and how accounting should change to accommodate these new requirements. In the same vein, Ernst and Ewert (1999) pointed out SMA practices challenge the conventional way of how management accounting operations are conducted. However, highly complex organizational issues are often treated in a fairly casual or even simplistic way in some of the existing literature and our knowledge of social implications concerning SMA practices is still far from complete.

2.3.3 The involvement of management accountants in strategic process

Arguments put forward by Kaplan (1984, 1988, and 1990) and Johnson and Kaplan (1987) triggered off a major discussion regarding the positioning of management accountants in gaining strategic relevance. Other writers (Simmonds, 1981; Govindarajan and Shank, 1992) proposed that to be relevant management accountants should focus more on the strategic issues faced by the organization and provide information deemed of greatest value to the business. This theme has been highlighted in many recent publications. For example, Granlund and Lukka (1998) presented in their work that there is a transition of management accountants from a role of historian and watchdog to the position of advisor and change agent. Burns et al (1999) noted a change in title from 'corporate controller' to 'business analyst'. The emergence of the 'hybrid accountant' (Caglio, 2003) also demonstrates the importance for management accountants to combine financial knowledge with commercial awareness.

This role change from bookkeepers to in-house consultants implies that accountants need to change their perspective from a pure financial focus to that of wider business issues, which entails a detailed understanding of the business and its environment. Wilson (1995) comments that specialists tend to see the world in terms of their own functions, and accountants usually view matters in financial terms associated with existing activities. This retrospective tendency is contrary to the prospective and outward-looking requirements of SMA. Bromwich and Bhimani (1994) argue that SMA demands new skills and

aptitudes of accountants that extend beyond their usual areas, and requires cooperation with general management, marketing and production specialists. In fact, a number of writers have suggested that the only effective way for organizations to achieve competitive advantage is to learn faster than their competitors (Garratt, 1987; De Geus, 1988). The burgeoning interest in learning leads Coad (1996) to argue that management accountants who are heavily involved in strategy making processes should ideally favour a learning orientation; and because of the necessity to liaise effectively across functional boundaries, and different levels of management, they need to work both 'smart and hard'. Further evidence supporting the advocacy of this 'learning orientation' is found in his survey (Coad, 1999). Coad (1999) argued that the advocacy for management accountants to become proactive internal business consultants have not been matched by corresponding indications of appropriate patterns of motivation and behaviour, but if management accountants possess or can develop a 'learning goal orientation' (p.127), they can live up to the demands for more strategic involvement and role innovation.

Accountants would also be expected to work closely with other functional areas (Roslender, et al, 1998). This role involves helping other organizational members understand the strategic implications of their decisions. Cullen, et al (1999) commented for management accounting to contribute to strategic issues, they need to be involved in multifunctional teams which look at processes across organizational boundaries. This will demand new skills for management accountants in terms of personal relationships and business acumen as well as the maintenance of traditional financial and analytical skills.

2.3.4 Summary of SMA development

In summary, recent management accounting research has reported increasing interest in SMA, but it has also shown a wide disparity in terms of application of the individual SMA practices and the use of the term SMA among accountants in different organizational settings (Adler, et al., 2000; Guilding, et al., 2000; Bhimani and Keshtvarz, 1999; Guilding, 1999; Carr and Tomkins, 1996).

SMA practices are regarded as being valuable in helping organizations improve financial and market performance. But the efficient functioning of SMA in the complex, socially constructed organizational settings seems to be dependent upon many variables, for example, the strategic objectives of the organizations, the interests of organizational members, the influence of the external environment, etc. Therefore, in undertaking SMA development, there is need to ask how well SMA copes with the organization's different strategic objectives and the organizational pressures.

The development of SMA practices also represents innovative opportunities for improving management accounting's strategic importance. To realise this, many researchers argue that management accountants should not only provide strategic-relevant information, but also participate in the decision-making process itself (Bhimani and Kershtvarz.1999). But how management accountants realize the role change from bean-counter to business advisor is complex, and not something that can be studied in isolation from its

organizational, social, and institutional context. Burns and Baldvinsdottir (2005) outline some of the factors impeding accountants' progress towards greater strategic involvement. These factors include the reluctance of accountants to change, reluctance of their managers to assign them strategic roles, lack of required skills, lack of autonomy and cooperation from senior management, and various resource constraints (see also, Innes and Mitchell, 1980; Chenhall and Langfield-Smith, 1998a; Bhimani and Kershvarz, 1999). These factors are helpful in identifying the reasons for failure to change, however, empirical evidence and theorization of the emergence and unfolding characteristics of role change is relatively scarce, and little insight is provided on how this reorientation of management accounting is related to the changes which happen in the organizational strategy dimension.

In general, SMA has been appraised by many writers as an approach to make accounting relevant again (Nyamori and Perera, 2001; Roslender and Hart, 2003). The main feature existing in the early SMA development was its emphasis on supporting the pursuit of competitive advantage through strategic positioning (Shank and Govindarajan 1993; Bromwich, 1990; Simmonds, 1981, 1986).

But there are also limitations exposed in early studies of SMA, especially the lack of in-depth exploration on the interrelationship between the adoption of SMA practices and the organizational strategies. Little research attention has been paid to how the employment of SMA practices changes with changes in strategy. Furthermore, there is also a lack of detailed examination of the

adoption process of the SMA practices in organizational settings. Knowledge about the adoption process can provide valuable insights into what factors facilitate or impede the use of SMA practices and this will complement the traditional 'static' depiction of SMA phenomena.

In the light of these research limitations, the topics of strategy and management accounting change are discussed in more detail. As the adoption of SMA practices can be seen as 'change endeavors' to traditional management accounting operations, the knowledge from these topic areas should be able to provide a useful guide to the study of SMA practices.

2.4 Strategy

The most popular perception of strategy adopted by SMA researchers is as a ploy to outwit the competition (Simmonds 1981; 1986). This strategy definition can be seen as originally developed in the military context, dealing with the selection of optimal positions (Sun 1971; Clausewitz 1989). It was further developed by Porter (1980, 1985) who draws heavily on economic theories of industrial organizations in a modern business environment. Porter defines strategy as creating and maintaining a competitive advantage in each area of business. In line with this competitive strategy definition, Porter argues that two basic types of competitive advantage could be identified and possessed by a firm, namely, cost leadership and differentiation. He perceives strategy formulation as a controlled, conscious process that produces full-

blown deliberate strategies. Strategies are made explicit before being formally implemented (Mintzberg, et al., 1998, p.84). Therefore, strategy formulation is regarded as the managerial activity in forming strategies while strategy implementation is only concerned with translating the chosen strategy into actions.

The early development of SMA was in a large degree crafted by Porter's (1985) perspective on strategy. Simmonds (1981) defined SMA as the provision and analysis of management accounting data about a business and its competitors for use in developing and monitoring business strategy. Thus, he distinguished SMA from traditional management accounting by viewing profit as stemming from the pattern of competition over time and the individual firm's position in the competitive configuration instead of viewing profit as largely determined by a firm's internal efficiency. Followers of Simmonds' early definition of SMA therefore narrowly proposed SMA as a competitor focused technique to respond to a competitive environment (Simmonds, 1981). Whereas in this thesis, SMA is defined with a broader scope, which effectively covers all the management accounting techniques that exhibit the characteristics of competitor concern, customer concern and long-term orientation. The 16 practices listed in section 2.2.4 are examples of SMA techniques under this broad interpretation.

Porter's work (1985) contributes to SMA by affiliating it with contemporary marketing theory and practice (Wilson 1995). The concern with achieving sustainable competitive advantage has been accompanied by the

development of a range of accounting techniques. These techniques promote the measurement and analysis of information on both markets and internal processes so as to beat the competition. Porter's strategic cost analysis also informed Bromwich's attribute costing approach which seeks to cost the benefits which products provide for customers, as well as Shank and Govindarajan's strategic cost management (SCM) approach.

Bromwich and Bhimani (1994, see also Bromwich 1990) suggested that SMA should go beyond collecting data on a business and its competitors by considering the benefits which products offer to customers and gauging how these attributes can contribute to the building and sustaining of competitive advantage. The sort of customer benefits in question includes product quality, reliability, low maintenance costs, etc. Bromwich (1990) argues that it is the benefits which are the ultimate cost drivers. However, it seemed this proposition did not raise too much passion due to its subjective nature and low feasibility in practice.

Shank and Govindarajan (Shank 1989; Shank 1996) advocated their strategic cost management (SCM) approach, which claims that managing cost effectively requires a broad focus. In the centre of this approach is the concept of the value chain which is a linked set of value-creating activities within which each firm is only a part as *'no firm spans the entire value chain in which it participates'* (p193, Shank, 1996). In this value chain, the company

has to select its '*structural*' and '*executional*' (p.194) cost drivers¹ carefully so as to better measure and influence its overall performance. This new thinking of 'cost drivers' noticeably expands the consideration that organizations need to give in order to achieve their best competitive positioning. For example, workforce involvement (participative management) and linkages with suppliers and customers all along the value chain are regarded as critical. However, apart from cost reduction, this approach has paid little attention to external environments. More recent references to it suggest that little further progress has been made (Roslender, et al, 1998).

Some researchers believe that Porter's definition is too narrow in scope and oversimplifies the issues concerning strategy in a modern management context. Instead, strategy should be better understood as a broad and multidimensional concept, which goes into the very heart of business and organizations (Nyamori, et al. 2001). Therefore a broader strategy concept should embrace all the critical activities or issues, and provide a course of action for meeting the challenges faced by the business (Hax, 1998). This broad view of strategy echoes to Chandler's definition in which strategy was described as

'the determination of the basic long-term goals and objectives of an enterprise, the adoption of courses of action and the allocation

¹ According to Shank (1996), '*structural*' cost drivers that relate to the firm's explicit strategic choices regarding economic structure such as scale , product-line complexity , scope of operations (vertical integration) , or experience (learning) . Technology investments also represent structural choices about how to compete. '*Executional*' cost drivers determine a firm's cost position and its ability to execute successfully within the economic structure it chooses. A list of executional cost drivers includes workforce involvement , workforce commitment to continuous improvement (kaizen) , adherence to Total Quality Management concepts , utilization of effective capacity (given the scale choices on plant construction), efficiency of production flow layout ,and effectiveness of product design or formulation,etc

of resources necessary for carrying out those goals'
(p.25,Chandler,1962) .

In the same vein, Mintzberg (1978) interpreted strategy as a pattern of decisions about the organization's future, which only takes on meaning when it is implemented through the organization's structure and processes.

The difference between the narrow definition (Porter's competitive advantage) and broad definition (Chandlers' objectives and means) is that the narrow definition takes the strategic objectives as given and gives more focus on means. For example, in Porter's case, the path to achieve competitive advantages is simplified as either differentiating products or lowering the costs. While with the broad definition, strategy is thought to provide a 'comprehensive and integrative blueprint' (Hax and Majluf, 1991), representing a conscious attempt to define where the organization is going and how it should get there. This broad view is also regarded as 'contingent' (Nyamori, *et al*, 2001) on the assumption that, to survive, an organization needs to match its activities to its environment and its resource capability.

The broad definition brings in the possibility that the finally achieved strategies are the result of interplay between the environment, the organizational operating system and the organization's leadership (Mintzberg, 1978). The environment is changing continuously and irregularly; the organizational operating system seeks stability; and the leadership mediates between the two, trying to achieve both organizational stability and the ability to adapt to

change (Mintzberg, 1998). Therefore, in contrast to the Porterian's narrow definition, the broad strategy definition depicts strategic management not as a deliberate process but as an emergent and highly fragmented process characterized by "muddling through" (Mintzberg, 1978; Mintzberg, Resighini et al, 1976; Quinn 1978; Hickson 1987).

2.5 Strategic change

Much research suggests that there is a possible dynamism between changes in strategy and changes of management accounting operations. Accounting measures could be more efficient if they were aligned with the firm's strategy (Fisher, 1995, Langfield-Smith, 1997) so as to minimize the 'measurement gaps' between the firms' strategic priorities and measurement practices. As early as two decades ago, Hopwood (1987) linked organizational strategic change and accounting change when he found that

' all the case analyses have illustrated that the consequences of accounting interventions in the organizations can disturb, disrupt, and displace the organizational area that was presumed in their formulation, thereby having the power to transform rather than merely modify the process of organizational change. (p.230)'

The bulk of studies of management accounting change highlight the need for studying accounting change towards a strategic orientation in the context of

wider organizational processes (e.g. Burns and Scapens, 2000). To provide a comprehensive basis for understanding SMA in the context of strategic change, it is useful to examine the different concepts of strategic change with a view to identifying their implications for SMA research.

'Understanding when and how management accounting is a leader, a follower, or an inhibitor of organizational change is valuable' (p.22, Shields, 1997).

Strategic change may be planned or incrementalist. A planning perspective involves the collection and analysis of all data available and consideration of all scenarios. The planning process may lead to an intended strategy, which incorporates patterns of decisions that organizations plan to execute (Mintzberg, 1978; Mintzberg and Waters, 1985). This planning perspective adopts a rational approach to strategic change with a sense of direction, which enables organizations to allocate resources to the most promising courses of action and encourages long-term commitment (De Wit and Meyer, 1998). In contrast, the incrementalist perspective posits that planning is not suitable for all kinds of organizational activities, especially the non-routine ones. Therefore, new strategies only emerge over time as management gradually adapt to unfolding environments. The strategy formation process is an iterative process of action, where strategies are considered and reconsidered on the basis of emerging evidence.

Strategic change may also be revolutionary or evolutionary. Revolutionary change involves radical change to established routines and practices. De Wit and Meyer (1998) opine that once a corporate culture is established and people get used to doing things in certain routinized or habitual ways, considerable pressure is required to bring out the needed change. Revolutionary change may be purposeful and lead to desired change, or chaotic, leading to undesirable change. Generally, revolutionary change requires a crisis to destabilize the status quo and strong leadership to mobilize support for such change initiatives (Hurst, 1995).

Evolutionary change, on the other hand, is continuous and gradual, building on prior changes. The organization engages in continuous improvement, learning, and adaptation with change occurring within the current paradigm adopted by the organization. In addition, unlike revolutionary change, where leaders are at the forefront of change, evolutionary change tends to be organization-wide with all members of the organization engaged. To foster an evolutionary change, flexible structures and systems should be in place. An open and tolerant corporate culture is a key to nurturing continuous learning which in turn facilitates evolutionary change (De Wit and Meyer, 1998). Theories of evolutionary change are often concerned with examining what forces compel organizations to change and what factors within or without the organization hinder or facilitate change (Greenwood and Hinings, 1993, 1996). In this light, organizations do not change solely due to external factors, but undergo various internal reconfigurations.

2.6 Management Accounting Change

Compared with the voluminous literature on strategic change, the management accounting change literature is not as well developed (Cobb, et, al, 1995). The majority of studies conducted in the past presented accounting change as a technical process with little regard to how the accounting operations change with emerging new organizational situations. For example, Kaplan (1985) claimed that there is a simple cause-effect relationship between accounting change and its environment, implying that signals from the environment have to, and will change accounting. This research trend has been heavily influenced by the 'consulting genre' (Lukka, 2007, p.79) which pays attention to the new management accounting techniques and their successful implementation (e.g. Kaplan and Norton, 1996; Cooper, 1996). But despite the strong suggestions of innovative SMA from academics and consultancy, there is ample evidence in recent publications that management accounting change faces organizational tensions, conflicts, and resistance, which quite often result in the failure of change or merely 'ceremonial' conduct of new management accounting practices (Scapens and Roberts, 1993; Malmi, 1997; Granlund, 2001; Burns and Scapens; 2000 and Burns and Baldvinsdottir, 2005).

Of particular concern to this study is the fact that little research attention has been given to understanding the accounting change processes through which new practices emerge (or fail to emerge) through time. Burns and Vaivio (2001) suggest that more should be known about how change in

management accounting is derailed, stagnates, or leads to unforeseen conflict. Burns and Baldvinsdottir (2005) argue that studying the processes of management accounting change requires a conceptualization of the ways in which new accounting practices evolve over time.

In the founding work of SMA, Simmonds (1981) suggested management accounting operations 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 larger business issues, which entails a detailed understanding of the business and its environment. Inspired by this, many management accounting researchers have started to consider the correlation between management accounting change and environmental change. Shields (1995) argues that accounting changes are administrative innovations, the success of which depends on how well behavioural and organizational implications are dealt with. Friedman and Lyne (1997) comment that the elimination of the bean-counter image of management 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 lift their strategic importance, they need to adapt information to the needs of a given situation and achieve an optimum balance between technical and organizational validity.

Therefore, the linkage between management accounting change and its collective context, the wider social and institutional forces that surround it,

remains an intriguing area of study (Bhimani, 1993, Granlund and Lukka, 1998, Burns and Scapens, 2000). Much research suggests that SMA should respond to the organizations' strategic requirements, As the organizations' environment is in a continuous process of change in terms of structure, competition, and other influencing forces, SMA therefore needs to bring alignment by being adaptive to these changes through introducing new evaluation mechanisms; changing the tightness of control, the focus of strategic endeavour, and the locus of decision making (Nyamori, 2001).

2.7 Research Objectives and Research Questions

Based on the research gaps in our understanding mentioned in the above literature review, it is argued that SMA remains an interesting and fruitful area of study in which management accounting researchers still have much to learn. Three major research objectives and their corresponding research questions are outlined below sequentially for further exploration.

Objective 1: What is the current situation of SMA development and implementation in UK's largest companies in general and case companies in particular? How useful are they in helping the organizations achieve their strategic objectives?

Related to the first objective, the usage and potential of a number of SMA practices will be appraised. The following questions will be answered:

1. What are the usage rates and merit scores of a variety of SMA practices?
2. To what extent has the development of SMA practices taken place?
3. What is the relationship between the different SMA practices and the strategy typologies?
4. How popular is the term SMA and is it used and understood in practice?

Objective 2: What is the extent of involvement of management accountants in SMA practices? Has their positioning within their organizations changed in term of strategic importance?

Related to the second objective, the way in which management accountants get involved in the strategic management process and use SMA practices to promote their strategic importance and reinforce their strategic orientation is investigated in both survey and case studies. The following questions will be addressed.

5. What is the relationship between the adoption of SMA practices and the degree of strategic involvement of management accountants?
6. What kind of role do management accountants play in the strategic change processes?
7. Have the perceptions of organizational actors concerning the functioning and positioning of management accountants changed along with the adoption of SMA practices?

Objective 3: How SMA practices become adopted in the case companies, and what factors facilitate or impede the adoption of the SMA techniques?

Related to the third objective, detailed investigation of the management accounting changes in the case companies is focused upon. Both external / environmental factors and intra-organizational factors are taken into consideration to discover how they have influenced the adoption of observed SMA practices. The following research questions are addressed here.

8. What kind of management accounting change processes have the case companies gone through? In terms of change pace and influence, are they evolutionary or revolutionary?
9. What factors influence the adoption of SMA practices, both outside and inside the case companies? How do these factors interact to facilitate or impede the management accounting changes?

2.8 Chapter Summary

In this chapter, a comprehensive literature review has been conducted, and, subsequently, the research objectives and research questions have been proposed.

This literature review comprised of three main sections. The first section reviewed the development of SMA over the past two decades since the term

was coined. SMA, as an evolving and expanding concept was articulated. The main characteristics that a SMA practice embodies are outlined, namely its long-term and future orientation, its outward market and competition focus, and its reliance on both financial and non-financial information.

After clarifying the definition of SMA, a number of SMA practices that embrace these SMA characteristics are identified. Subsequently, development in the field of SMA has been analysed along three dimensions, namely the adoption rate of different SMA techniques, the usefulness of SMA in improving organizational performance, and the role played by management accountants. Overall, the traditional financial measures are perceived as important by organizations; and the adoption of SMA practices is still low, but the high perceived merit suggests strong future potential. In evaluating how SMA practices help organizations achieve better performance, much research work suggests that SMA can assist organizations achieve greater economic benefits, but the efficacy of SMA practices on this aspect is contingent on many factors, such as whether SMA practices can effectively align with organizational strategies, whether management accountants can cope with the challenges posed by dynamic organizational environment, etc. Concerning the positioning of management accountants, accounting academics and professionals are urging their colleagues to take a higher profile that implies greater involvement in strategy formulation and implementation in order to help organizations succeed in what is seen as a volatile and uncertain environment. To fulfill this role, accountants are being

asked to acquire new skills to work closely with other functions and offer support to strategic decision-making.

The second section of this chapter focused on exploring the relevant strategy concepts adopted in SMA research. SMA researchers have recognized a multiplicity of ways of seeing strategy (Bhimani and Keshtvarz 1999; Guilding, Cravens et al. 2000). Among the different concepts of strategy, Porter's (1985) generic strategic approach has been influential and inspired SMA researchers in designing some SMA practices. Followers of Porter's view share a common assumption that a simple linear relationship exists between SMA practices and an organization's prescribed strategic objectives (Shank, 1993, 1996). This raises a number of questions how the strategies were formed, how these strategies were linked to the environment in which the organizations operate, how the strategies came to change, and how strategic changes influenced accounting practices (Nyamori, et al, 2001). In this study, it is mentioned that strategy should be recognized as balancing between organization objectives and the environment. Therefore, the researcher is in favour of the view that the strategy formation process is such a complex process that many external and internal factors are influential and need to be taken into consideration.

The third section reviews the literature on the topic of management accounting change. While some efforts have gone into explaining how management accounting practices have changed (e.g. Burns and Scapens, 2000), these efforts do not articulate the changes within the context of changes in strategy. Issues such as how accounting changes are implicated

in changes in organizational strategy, and whether organizations undergoing different strategic changes tend to adopt different management accounting operations remain largely unaddressed. It is argued that, in looking at management accounting change, there is need to look closely at ways in which strategy has changed and how management accounting operations are implicated. Is strategic change a planned or emerging process, evolutionary or revolutionary? How would a different change process influence the adoption of SMA practices? Is change to SMA a systematic endeavour, which proceeds towards well specified, explicit objectives according to agreed procedures? Or is the path of change perhaps more unsystematic and unpredictable, including ambiguous goals, unforeseen incidents, and abrupt turns?

Drawing on the literature review, this research argues that in the past there has been an overemphasis on whether certain SMA techniques are adopted, but less attention is paid to how SMA practices are intertwined with the larger organizational processes. The past literature suggests that SMA can be valuable in helping companies perform better. But the efficient functioning of SMA depends on many factors, both internal and external to the organization. It is also suggested that previous research has focused on a static investigation of whether or not accountants play strategic roles. However, many organizations' strategies seem to emerge over time and the role of accountants may be argued to emerge in a similar manner.

The issues in this chapter lay the foundation for the methodology building-up in next chapter. To achieve greater research insights into the limitations mentioned above, in this thesis, the study of SMA practices in real organizational settings is guided by strategy and management accounting change literature. It is argued that the adoption of SMA practices, as a particular form of management accounting change, should be explored in real organizational settings with more research attention on its alignment with strategic objectives and organizational contexts.

CHAPTER 3 RESEARCH METHODOLOGY

3.1 Introduction

In this chapter, the philosophical grounding of this study is discussed, and the links between philosophical grounds and research theories are developed. As Harvey (1990) views methodology as a point at which research method, theory, and epistemology coalesce. It is necessary to clarify the philosophical position at the outset of the research journey before proceeding to the detailed research design.

This chapter proposes to answer the major philosophical questions in research suggested by Remenyi *et al* (1998) why research, what to research, and how to research? For this purpose, this chapter takes into account, in turn, the epistemological and ontological considerations, the theory, and research strategy. In general, this study is viewed as primarily explanatory (theoretical grounding), qualitative (research strategy), interpretivist (epistemological stance) and constructivist (ontological stance).

The next section starts with the discussion of the epistemological and ontological issues underlying current Management Accounting research. Then the philosophical stance of this study is established. In dealing with which theory conveys the most useful and appropriate ideas in guiding empirical research into SMA phenomena, this study compares conventionally adopted economic theories and emerging institutional theories. A neoinstitutional

framework is proposed to provide guidance for this study. This framework is useful as it provides a classification of the factors relevant to management accounting change, in this case, especially the employment of SMA practices. Detailed knowledge of how the neoinstitutional framework is employed is discussed subsequently. Research strategy and research design are articulated in chapter 4.

3.2 Epistemological and ontological considerations

Epistemology is that branch of philosophy, which addresses the nature of knowledge and how it is created. A particularly central issue is whether or not a natural science model of the research process is suitable for the study of the social world. Epistemological considerations therefore are concerned with the question 'how do we know what we know?' and provide a 'philosophical grounding' for selecting appropriate research approach (p.8, Crotty, 1998,). From a business research perspective, epistemologies generally fall into two opposing camps, positivism and interpretivism.

3.2.1 Positivism and Interpretivism

Positivism is an epistemological position that advocates the application of the methods of the natural sciences to the study of social reality and beyond (Bryman and Bell, 2003). The key idea in positivism is that there is '*one true answer to questions and these answers will be self-evident if we simply*

observe and record events carefully (Novak, 1998, p.50). According to positivism, research starts by making empirical observations with an ultimate aim to discover general laws in the studied field of research (Lukka & Kasanen, 1995). They typically focus their efforts on testing hypotheses deduced from certain theories, or developing new hypotheses based on relationships discovered through the analysis of data. Such theories tend to be aggregate, not specific to the cases.

In contrast to the positivistic epistemology is interpretivism. Interpretivism denotes an alternative to the positivist orthodoxy that has held sway for decades. In the view of interpretivism, researchers, especially in the social sciences, should respect the differences between people and the objects of the natural sciences. Therefore, social researchers are encouraged to pay attention to the subjective meaning of social action (Bryman and Bell, 2003).

Interpretivism has its intellectual heritage in Max Weber's *Verstehen* approach, which describes sociology as a

'science which attempts the interpretive understanding of social action in order to arrive at a causal explanation of its course and effects' (1947:88).

The definition of Weber's emphasizes that the *'causal explanation'* should refer to the *'interpretive understanding'* of those who are involved in the *'social action'*. Following interpretivism, the study of the social world requires the

research to reflect on the distinctiveness of humans as against the natural order of things.

3.2.2 Ontological considerations

Ontology is concerned with whether the social world is regarded as something external to social actors or as something with which people are in close engagement (Bryman and Bell, 2003). Two contrasting positions are frequently referred as objectivism and constructivism.

Objectivism is an ontological position that implies that social phenomena confront us as external facts that are beyond our reach or influence. Therefore it suggests that organizations and culture are pre-given as external realities and social actors have no role in fashioning them. Constructivism, on the other hand, asserts that social phenomena and their meanings are continually being accomplished by social actors. Social phenomena are produced through social interaction and are in a constant state of revision. Bessire and Baker (2005) point out one fundamental assumption on which social constructionism is based is that reality is always a human experience.

3.2.3 Philosophical standing of this study

Tomkins and Groves (1983) point out that the selection of the most appropriate research methodology is dependent on the nature of the

phenomenon being researched. In particular, the assumptions which the researcher holds regarding the nature of the phenomenon's reality (ontology), will affect the way in which knowledge can be gained (epistemology), and these two in turn affect the process through which research can be conducted (methodology). Consequently, the selection of an appropriate research methodology can not be done in isolation from a consideration of the ontological and epistemological assumptions which underpin the research in question.

The mainstream management accounting research conducted in the past several decades was influenced heavily by positivism (epistemological position) and objectivism (ontological position). The tradition of positive theory in economics became a major force in management accounting research, particularly in 1980s.

'Accounting researchers adopted the ideas of positivism as a matter of routine. Positivism had become the unchallenged paradigm of accounting research.' (p. 74, Lukka and Kasanen, 1995)

Increasingly, the dominating position of positivism and objectivism are being challenged by trends of interpretivism and constructivism. Many accounting researchers challenged the domination of positivism by arguing that the natural science methods have their place, but it should not necessarily be a privileged place (Hopwood, 2002). Research in management accounting is

generally accepted as being social scientific, as appropriate standards of scientific enquiry are applied to social issues rather than natural phenomena (Luft and Shields, 2002). By recognizing management accounting practices as socially constructed, it is believed that the management accounting practices can be changed through the actions of individuals located within that social context. The recognition of the importance of human actions is an essential feature of the interpretive approach (Lukka and Mouritsen 2002). In the social context, management accounting is recognized as providing a set of meanings or a language, which is drawn upon in an organization. As much as management accounting focuses on attaining economic efficiency, it is also used to legitimize particular forms of organizational activities and as a source of power for different interest groups within organizations.

The ontological and epistemological dimensions of this study are that reality should be viewed as a '*contextual field of information*²' (p.37, Ryan, et al, 2003). In this sense, attention is paid to how the role of management accounting gives meaning to organizational activity, providing norms of behaviour and structuring day-to-day social practices in organizations. In the research of SMA and management accounting change, this involves modelling the interconnections between the environment and management accounting practices. Under these ontological and epistemological assumptions, scientific methods are clearly quite inappropriate. Therefore, the author agrees with Tomkins and Groves (1983) that social science research

² The researchers borrows the words from Ryan et al (2003), who identify six different ontological assumptions, each associated with particular schools of thought in the social science. At one extreme, reality is viewed as a concrete structure being the most objective standing; and at the other extreme, reality is regarded as a projection of human imagination.

method is more appropriate for studying the everyday behaviour of management accountants. Such research would use field study methods, to study management accounting in its natural settings, to explore the interactions with its broader organizational and social context. Thus, in contrast to scientific method, which is based on abstraction, reductionism and statistical examination, social researchers focus more on developing holistic theories to interpret day-to-day management accounting practices in the context of wider social systems of which they are part.

3.3 Theory

In general, the theories employed by management accounting research fall into two main camps: *economic theories of internal organization and sociological perspectives on the organizational context of management accounting* (Walker, 1998, p. 28). Economics based approaches to theory of organizations assume self-seeking rational optimization on behalf of all economic agents. However, criticisms of the unrealistic and non-historical nature of the economics approach have led academic accountants to pay more attention to sociological perspectives to capture more insights on the influence of social and cultural factors on management accounting practices.

In line with the ontological and epistemological stance of this study, the role of theory is to address the prevailing organizational contexts of SMA practices. Special attention is therefore paid to human actions and intentions to obtain a better understanding of the management accounting change process. This is

inspired by the need to bridge the 'gap' between the 'theory and practice' identified by many management accounting researchers (See Scapens, 1986, Johnson and Kaplan, 1987). The recognition of this gap affected management accounting research in two respects. First, there was growing interest in studies that explored the nature of management accounting practice. Second, the theories and research strategies adopted by accounting researchers started to show a greater variety.

The next section starts with a brief review of the traditional economics routes of management accounting research, then two influential institutional frameworks are introduced, illustrating how these efforts help extend the boundaries of research focus and achieve more insightful research outcomes. Finally, a neo-institutional (Greenwood and Hinings, 1996) framework, combining both old and new institutional perspectives, is adopted in this study to facilitate the empirical investigation of SMA practices in organizational settings.

3.3.1 Mainstream (economics-based) accounting research and its limitations

Positive economics theories have largely shaped the past development of management accounting. A literature review by Shields (1997) observed that the majority of the publications in top management accounting journals rely on the economics theories (75 out of 152 articles investigated).

At the heart of the economic theory is the notion of economic rationality, whereby each individual maximizes self-interest, usually conceptualized as 'utility'. Economic allocation is determined by relative, marginal utilities. A requirement of equilibrium in all markets ensures that market prices reflect marginal utilities and thereby provide for optimal allocations of scarce resources (Scapens and Arnold, 1986).

Traditional management accounting research emphasizes economic assumptions such as certainty, costless information and existence of rational decision-makers. In decision-making analysis, economic frameworks (such as information economics, neoclassical economics, and transaction cost economics models) are widely used by accounting researchers to analyse decision-making, a fundamental notion of this economic approach is that that relevant costs should be identified in the context of the particular decision at hand (Coase, 1937, Walker, 1998). There are various planning and decision models published in current management accounting textbooks that emphasize these economic approaches, for example, cost-volume-profit analysis, cost behaviours, inventory control models, and variance analysis. Therefore, economic theories have had a significant impact on the emergence of management accounting techniques in the academic literature. As articulated by Scapens and Arnold (1986), the neoclassical economic theory played a central role in the initial development of management accounting techniques in almost all the major topic areas, including planning, cost classification, control and costing.

However, economic theories have inherent limitations, which are embedded in many unrealistic assumptions such as, the unbounded rationality and market equilibrium. As far as management accounting research is concerned, economics-based research has been useful in predicting general patterns and trends in aggregate economic phenomena. For example, the neoclassical model has proved extremely useful for the economic analysis of particular industries or markets on certain topics such as the implication of economies of scale and the effects of changes in demand and supply conditions. But its ability to predict and explain individual economic behaviour is limited (Walker 1998).

Ittner and Larcker (2002) point out that that a strict economic framework can not provide all the necessary theoretical insights into complex management accounting practices. The precise assumptions, upon which the economics models are based, such as utility maximization, rational behaviour, formation of market prices, etc, abstract away many key elements that affect decision-making in real settings (e.g. cognitive limitations, social influences, etc).

The economics theory of the firm has also been criticized by Scapens and Arnold (1986) as a basis for developing management accounting techniques. This theory was developed more for prediction of behaviours at the industry and market levels of analysis, instead of providing explanation of the behaviours of individual firms. An example in point, Bromwich's attribute costing has failed to make a significant impact on practice (Guilding, 1999; Guilding, et al., 2000). A main reason is that, to a very large extent, attribute

costing and the associated cost analysis matrix was principally a conceptual development. Apart from illustrative cases (Bromwich, 1996, 2000), there was little attempt to detail how attribute costing might be operationalised in real business settings. Burns and Scapens (2000) also argue that although economic approaches may be able to suggest new techniques, it does not assist our understanding of how such techniques come to be used in organizations, or the nature of resistance to their use. For example, it may be possible to demonstrate that the use of ABC is more rational than traditional or more simplistic cost allocation techniques based on volume criteria, but it does not explain the processes through which ABC techniques come to be used in some organizations, but not in others; nor does it offer insights on potential problems and difficulties to be faced in the implementation process (Burns and Scapens, 2000).

In terms of SMA practices, economic explanations tend to picture SMA practices narrowly as a technical process and only focus on static investigation of whether or not accountants play strategic roles. In recent years, this inadequacy has been more and more realized by many researchers (Nyamori, et al, 2001). It has also been argued that management accounting can create patterns of meaning which are closely tied to modes of legitimating and relations of power in organizations (Lavoie, 1987; Macintosh and Scapens, 1990). Accounting is no longer seen as a disinterested technical activity, but as a social one in which various potentially conflicting interests become intertwined. Additionally, Zajac (1992) argues that economics approaches suffer from a lack of attention to behaviour and process issues.

An understanding of SMA (as a form of social practice) can be better achieved by exploring the evolution of SMA practices in the recent history and identifying the various influences on accounting change.

In addition, the limitations of an economic approach constrain it from providing insights on strategic issues. Peteraf and Shanley (1997) articulate that problems such as unrealistic assumptions regarding unbounded rationality, efficient markets, and a neglect of dynamic issues have impeded the usefulness of economic approaches to construct practical strategy. However, the adoption of SMA practice is often linked with organizations' strategic objectives, as symbolic of the process of accounting change from 'tactical' to 'strategic'. Therefore, as researchers start to pay more and more attention to the links between organizational strategic pursuits and the adoption of SMA practices, the importance of its strategic contexts is highlighted and the inadequacy of the economic theory exposed.

3.3.2 Alternative Approaches

From the aforementioned limitations of both positive methodology and its origins in economics, it is argued that better understanding of management accounting operations and management accounting change in organizations can be achieved by addressing the social influences and human actions in the specific organizational settings. People's behaviours are influenced to a significant degree by the structures, rules, and social-interaction patterns of the organizations in which they work. Scapens and Roberts (1993; see also

Burns and Scapens, 2000), argue that researchers need to think about issues related to the internal organization of the firm from a variety of aspects. Recent progress on management accounting research reflects the trend of moving away from the 'simple' neoclassical theory.

Hopwood (2002) claimed that economics is only one of a number of social science knowledge areas or modes that have the potential to enrich our appreciation of the issues in the emergence, functioning, and impacts of management accounting practices. Whilst different modes of understanding are capable of providing different insights into the same phenomena, to endow any one of these with a truth status superior to the other requires '*a huge leap of faith rather than any more analytical form of philosophical inquiry*'(p,783). This is particularly so because different bodies of knowledge seem to be capable of providing insights into different aspects of the emergence and functioning of accounting practices.

Luft and Shields (2002) argue that understanding people's preferences has not been the strength of economics (Lazear, 2000). In management accounting, it is quite possible that people's personal values and tastes are formed to a significant degree by the structures, rules, and social-interaction patterns of the organizations in which they work. Thus, better understanding of the use of accounting in organizations depends on understanding social influences on what people want. Sociology theories can potentially provide more understanding of this kind of preference formation than economics does.

Lukka and Mouritsen (2002) believe the spread of paradigms (Economics, Sociology, and Psychology) in use illustrates researchers' *'degrees of freedom'* (p.806). The fewer paradigms present at a particular point of time, the narrower will be the available spread of propositions about rigour, testing and theorizing. Therefore, the diversity of employing a variety of social sciences is appropriate for the applied field of management accounting. In this study, the researcher argues that when SMA is seen as socially influenced phenomena, it is necessary to go beyond 'pure' economic explanations. While economics provides a good basis for much empirical research in management accounting, other social sciences offer more potential to offer insights on human aspect concerning management accounting change such as understanding people's preferences, how they think, and how they interact with other people. Organizational and sociological theories (in this case, especially institutional theories), which explicitly recognize issues of social control and coordination in organizations, provide valuable intellectual approaches to examine the SMA practices as problematic aspects in an organizational and social context (Covaleski, *et al*, 1996) .

3.4 Institutional theories

Currently, a number of management accounting researchers, who are examining processes of accounting change in correspondence with organizational change, are drawing on a range of 'institutional' perspectives and they have been successful in illuminating issues in both theory and

practice (Covalesski, et al., 1993, 1996, 2003; Granlund and Lukka, 1998; Burns and Scapens, 2000). The employment of institutional theories reflect the interests of many researchers who view management accounting practices as socially constructed (See for example, Hines, 1988; Lukka, 1990; Lukka and Kasanen, 1995), which implies an *'absence of trans-temporal and trans-spatial regularities in any unconditional sense. This is the very point of the growing literature of institutional analysis'* (Lukka and Kasanen, 1995, p.73).

Institutional theorists argue that several core economic assumptions are inadequate for such theoretical purposes as understanding accounting change as a social construct. Among these economic assumptions, two core assumptions of neoclassical economics, namely the rational maximizing economic agent and the general equilibrium achieved by market forces, are particularly challenged by institutional theorists. For example, Luft and Shields (2002) argued, *'complex natural and social systems have a variety of dynamics: some equilibrate, some cycle and some are chaotic'* (p.800). It is inappropriate to assume that all management accounting practices will change only as a result of some new exogenous shock, not as a result of any internal tension or non-equilibrium dynamic. Also, although economics theory may be useful in predicting general patterns of behaviours across many individuals and firms, they can not explain the behaviour of individual economic agents. For example, economic explanation might be able to predict the circumstances in which we can expect to see the promotion of competition

analysis by companies, but it will not explain how individual accountants react to this newly assigned task in different organizational settings.

Employing institutional theories in assisting management accounting research, however, is not all that straightforward. Scott (1987) advised that *'the beginning of wisdom in approaching institutional theory is to recognize that there is not one but several variants'* (p.1025.) There are different schools of institutionalists who give particular attention to different social issues. DiMaggio and Powell (1991) distinguished between the old and the new institutionalism. In the old institutionalism (OI), the focus is centered on the individual organization. Issues of influence, coalitions, and competing value within the organization are central, along with power and informal structure. The new institutionalism (NI), in contrast, is primarily related to organizations-in-sectors and has its major emphasis on how individual organizations are embedded in a given population or field of organizations. NI theorists stress that institutional context is made up of vertically and horizontally interlocking organizations³ and that the pressures and prescriptions within these contexts apply to all of the relevant classes of organizations (DiMaggio and Powell, 1983; Meyer and Rowan, 1977, Scott and Meyer, 1991). Both OI and NI theories have been applied in many publications of recent management accounting research in an effort to conceptualize management accounting change.

³ Scott (1991) believes that the institutional context is constituted of all organizations within a society supplying a given type of product or service together with their associated organizational sectors, such as suppliers, customers, financiers, regulators, etc (p.108)

3.4.1 New Institutionalism (NI)

Advocators of NI believe that institutions matter, and in analyzing how they matter, they reject the assumptions of methodological individualism⁴ and individual rationality. In so doing, they embrace the importance of culture, particularly how the social world constitutes organizational actions. NI theorists declare that regularized organizational behaviours are the product of ideas, values and beliefs that originate in the institutional context (Meyer and Rowan, 1977). To survive, organizations must accommodate institutional expectations, even though these expectations may have little to do with technical notions of performance accomplishment.

Within sociology, and more particularly within organization theory, NI is defined by DiMaggio and Powell (1991) as

'comprising a rejection of rational-actor models, an interest in institutions as independent variables, a turn towards cognitive and cultural explanations, and an interest in properties of supraindividual units of analysis that cannot be reduced to aggregations or direct consequences of individuals' attributes or motives' (p.8).

⁴ There has been a continuing debate within social theory over the relationship between individual action and social structures. At one extreme is individualism, which maintains that all social action is voluntary, and thus social structures, are merely a reflection of accumulated individual action. At the other extreme is structuralism, which maintains that social action is entirely determined by social structures. Individuals' actions are constrained and shaped by the structures (Giddens, 1984).

NI predominately focuses on the effects of extra-organizational institutions (economic, social, and political) on various organizational practices (DiMaggio and Powell, 1977; Meyer and Rowan, 1987). Underlying DiMaggio and Powell (1991)'s analysis, organizations conform to contextual expectations of appropriate organizational forms to gain legitimacy and increase their probability of survival.

NI emphasizes that the environment should not be seen as something quite separate from the firm and organizational processes. The environment can penetrate the organization, creating ways in which actors view the world and make sense of their own organizational identity. Rather than being a constraint on organizations, the environment creates the categories through which organizational activity is conducted (Powell and DiMaggio, 1991) '*...Organizational success depends on factors other than efficient coordination and control of productive activities*' (p.53). NI was initially developed to explain the convergence of organizations in the same population over time, and several 'isomorphisms'⁵ are highlighted in describing the congruence between the inside and the outside of organizations. For example, organizations devote considerable energy to the development and elaboration of

⁵ 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 organizations that one best way. For the latter category, it can be subdivided into coercive, mimetic and normative isomorphism.

Coercive isomorphism represents the pressures to conform, exerted through standards, regulations, and the like. Government regulations, for example, can coerce organizations into adopting new procedures; a large manufacturing firm can force its suppliers to standardize their shipping operations. *Normative isomorphism* refers to the diffusion and institutionalization of structural attributes as a result of professionalization. The experience of a specialized education, and the involvement in professional networks, influence how professional personnel undertake their activities within the organization. *Mimetic isomorphism* stems from the tendency of organizations to imitate each other in response to uncertainty. In situations where they are not sure what to do, organizations frequently look to a reference group, to kindred organizations, and emulate what they do in the same situation.

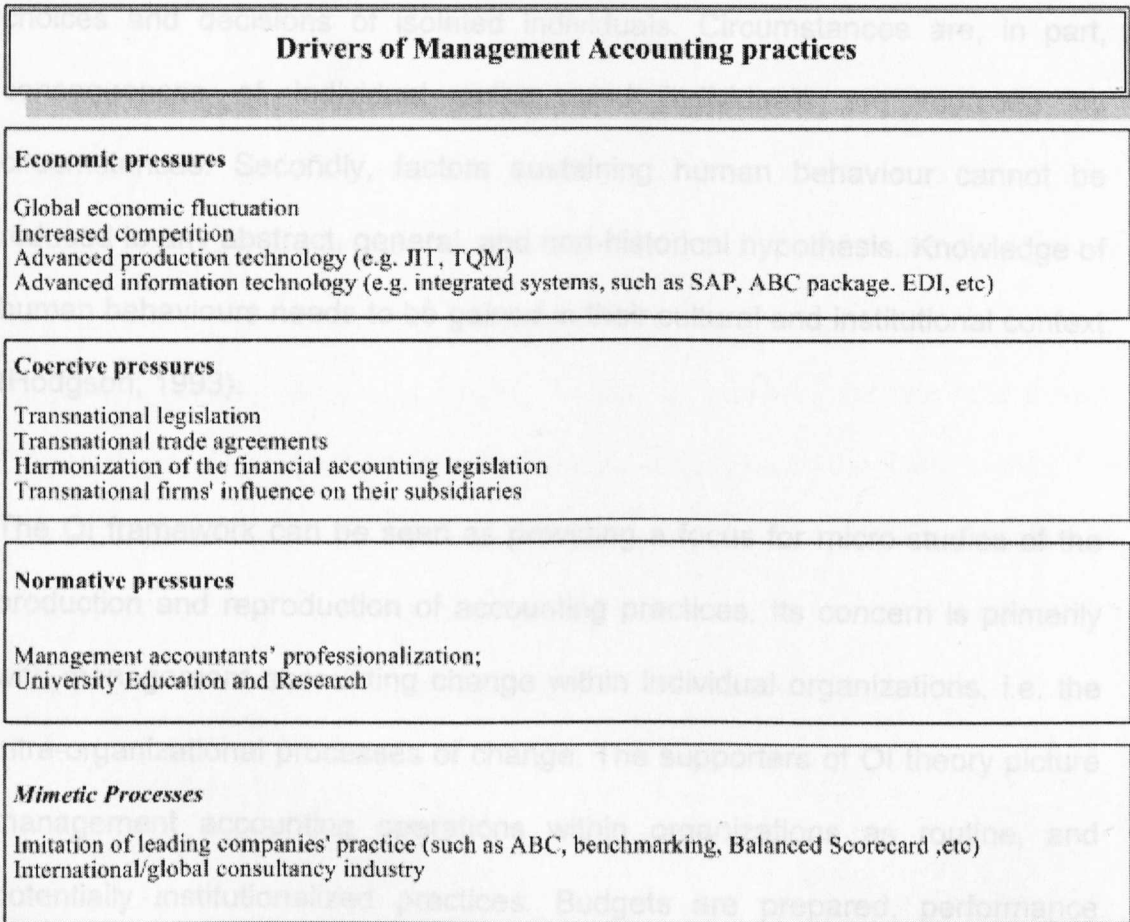
rationalized rules and procedures; it may not be because these produce decisions or outcomes that are 'objectively' better. Being technically efficient is not the only path to organizational survival. Achieving legitimacy in the eyes of the powerful professions, state, or society at large, is another effective survival strategy.

In management accounting research, new institutionalists tend to explore the extent to which wider institutional arrangements have influenced the development of accounting practices (Covaleski et al, 1996). They indicate that the selection of management accounting practices is not dictated by technical criteria alone, but also a cultural and political process that concerns legitimacy and power much more than efficiency. Therefore, in contrast to orthodox economics explanations, which indicate that the purpose of management accounting is to facilitate rational decision making by faithfully representing the economic reality of the organization (Cooper and Kaplan, 1991; Horngren, 1977), NI theorists propose that the survival of an innovative management accounting practice requires it as much to conform to societal norms of acceptable practice as to satisfy the efficiency pursuit of an organization (Meyer & Rowan, 1977; DiMaggio & Powell, 1983). Granlund and Lukka (1998) use NI to argue that there is currently a strong tendency toward '*global homogenization*' (p.153) of management accounting practices. The forces that seem to be causing this convergence involve both economic and institutional pressures. Therefore, the adoption of NI effectively broadens the scope of investigation as organizations adapt their activities in search for not

only efficiency (economic fitness), but also legitimacy (social fitness). See Figure 3-1 below for further reference.

However, as formulated, NI theory to a large degree ignores the internal dynamics of organizational change. As a consequence, this theory lacks strength in explaining the issues such as why some organizations adopt innovative accounting change whereas others do not, despite experiencing similar institutional pressures.

Figure 3-1 New Institutional Framework



Source: *Drivers of Convergence and Divergence of Management Accounting Practices.*
Granlund and Lukka (P.157, 1998)

3.4.2 Old institutionalism (OI)

In contrast to NI, Brint and Karabel (1991, p, 352) observed that, old institutionalism '*emphasizes the details of an organization's interactions with its environments over time*' and pays attention to the beliefs and actions of those who have the power to define directions and interests.

Hodgson and Screpanti (1991) suggest two principles as foundations of the old institutionalism. Firstly, human behaviour cannot be reduced to the choices and decisions of isolated individuals. Circumstances are, in part, consequences of individual action, and individuals are moulded by circumstances. Secondly, factors sustaining human behaviour cannot be reduced to any abstract, general, and non-historical hypothesis. Knowledge of human behaviours needs to be gained in their cultural and institutional context (Hodgson, 1993).

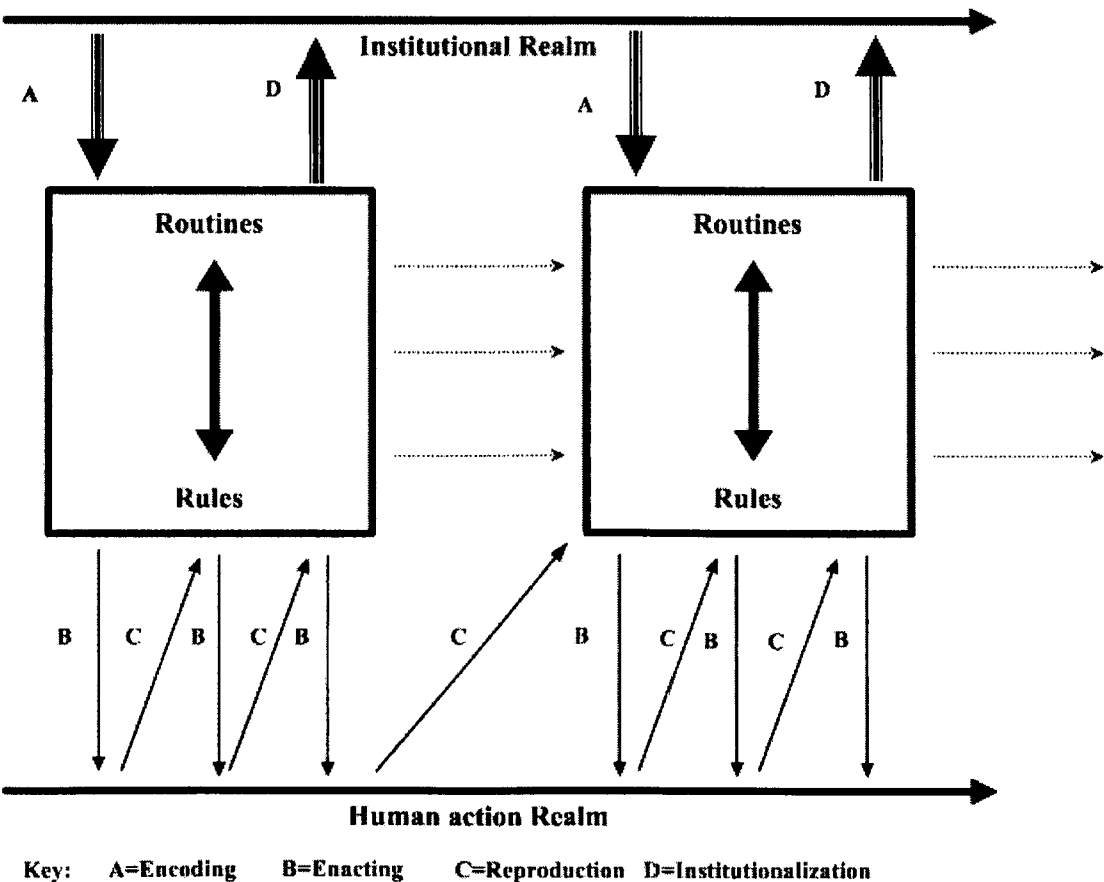
The OI framework can be seen as providing a focus for micro-studies of the production and reproduction of accounting practices. Its concern is primarily with management accounting change within individual organizations, i.e. the intra-organizational processes of change. The supporters of OI theory picture management accounting operations within organizations as routine, and potentially institutionalized practices. Budgets are prepared, performance monitored, and reports produced in a regular and routine fashion guided by specified rules and procedures. As such, management accounting could be regarded as comprising institutionalised routines in day-to-day organizational behaviour and can, over time, come to underpin the 'taken-for-granted' ways of thinking and doing in a particular organization. (Burns and Scapens, 2000, see also Scapens and Roberts, 1993)

If management accounting is to be regarded as a routine feature of organizational behaviour, then, the research into management accounting

change requires a thorough understanding of the current context of the organization, especially its routines and institutions.

As depicted in Burns and Scapens (2000) framework (Figure 3-2), institutions comprise the taken-for-granted assumptions that inform and shape the actions of individual actors. Meanwhile, these assumptions are themselves the outcome of social actions. Institutions also change under the influences of human activities, which are closely related to human interests and power. Thus, there is a duality between human activity and the institutions. The interactions between the human activities and institutions are channeled by rules and routines. However, changes which happen in the institutional realm occur over longer periods than change in the realm of human activity.

Figure 3-2 Old Institutional Framework



Burns and Scapens (2000) use this diagram to demonstrate how actions, rules, routines, and institutions interact. The first process (arrow A) entails how the encoding of institutional principles into rules and routines. In general, the existing routines will embody the prevailing institutional principles, and will shape new rules. The second process (arrow B) involves the actors enacting the routines and rules which encode the institutional principles. This process of enactment will usually result from reflexive monitoring and the application of tacit knowledge about how things are done. This enactment of rules and routines may be subject to resistance, especially if rules and routines challenge existing meanings and values, and actors have sufficient resources of power to intervene in this process, i.e. when the external environment is becoming volatile, the company being taken-over, etc. The third process (arrow C) takes place as repeated behaviour leads to a reproduction of the routines. This process can be either conscious choice or unconscious change. The final process (arrow D) is the institutionalization of rules and routines which have been reproduced through the behaviour of individual actors. In other words, these rules and routines become taken-for-granted and disassociated from their particular historical circumstances. These institutions will then be encoded into the ongoing rules and routines and shape new actions and so on.

3.4.3 The limitation of both institutional theories

In summary, two institutional frameworks have been introduced above. In NI (Covaleski, et al, 1993, 1996, 2003, Granlund and Lukka, 1998), institutionalization is generally regarded as an *outcome* and supporters of NI claim that expectations of acceptable practices exist and organizations need to conform to them. However, the major drawback in this framework is that research has focused almost exclusively on macro-effects, leaving institutionalized practices within organizations largely unexamined (Tolbert, 1988; DiMaggio and Powell, pp.154-156).

By contrast, the OI framework provides insightful supplements by specifying the interplay between different interests and powers within individual organizations (Scapens, 1994, Burns and Scapens, 2000); institutionalization is thus interpreted as a process that is profoundly political and reflects the relative power and interests of organizational actors who mobilize them.

Both NI and OI have generated valuable insights into the processes that define and explain institutionalization in organizational environments and their influences on management accounting practices. But both NI and OI have placed particular emphasis on the how institutional arrangements cause stability at the expense of focusing on institutional change (Granlund, 1998; Quattrone and Hopper, 2001; Dillard, et al, 2004). For instance, Burns and Scapens (2000) conceptualize how a great deal of management accounting is premised on rules and routinized actions, which, over time, become an

unquestioned aspect of business activities. But there is little in their framework to conceptualize the nature and possible dynamics of such change processes (Burns and Baldvinsdottir, 2005). Much previous research work that drew on NI also stresses how management accounting often conveys inertness over time because it represents a means by which organizations legitimize themselves to the expectations of stability held by external parties (Covaleski, et al, 1993; Granlund, 1998).

There is however a noticeable lack of attention, in the above two frameworks, to explain how the self-interests of organizations respond to institutional pressures and expectations (Oliver, 1991). Institutional changes do happen and new actions become new rules and new institutions. Given the institutionalized nature of organizational behaviours, what are the processes by which individual organizations adopt legitimized templates and change them? DiMaggio and Powell (1991, p.27) suspected that '*something has been lost in the shift from the old to the new institutionalism*'. They go on to suggest that power and interests have been slighted topics in institutional research.

3.5 A Neoinstitutional Framework

The recent contribution of the neoinstitutional framework (Greenwood and Hinings, 1996) combines the insights from both NI and OI theories and has the potential to offer 'an excellent basis' (Dougherty, 1994, p.108) for an account of organizational change and gives the possibility of dealing with the questions posed above by DiMaggio and Powell (1991,p29):

'if institutions exert such a powerful influence over the ways in which people can formulate their desires and work to attain them, then how does institutional change occur?' .

Building on the theoretical beliefs that institutional theory can accommodate interest-seeking and active organizational behaviours, this framework makes explicit claims to contribute to our understanding of the behaviours of organizations in institutional contexts and the conditions under which organizations will accept or resist institutionalization.

The neoinstitutional framework has placed considerable attention on intra-organizational reactions to the external institutional environments. Compared to NI, organizations' responses to institutional pressures and expectations are no longer assumed to be invariably passive and conforming across all institutional conditions. Instead, a neoinstitutional explanation argues that institutionalized practices engender behaviours that cause or impede changes, particularly to the changes that challenge existing norms, values, and the culture. How organizations respond to 'institutional prescriptions', becomes a function of '*internal dynamic*', which involve power and interests of organizational actors (Greenwood and Hinings, 1996, p.1024).

3.5.1 The Institutional Environment

Van de Ven and Poole (1988), Pettigrew (1987) and Wilson (1994) have lodged pleas for theoretical understanding of how environmental pressures

are interpreted and acted upon by organizational actors. Therefore, a central message of the neoinstitutional theory is that organizational change derives from the normative embeddedness of an organization within its institutional context. Market and institutional contexts interact with each other, and exert power over organizations. Changes in market pressures can have effects by shaping and reshaping intraorganizational power balances, which then enable change. For example, when the salience of some issue is raised relative to others in the market place, the market context alters the relative power of groups within the organization and leads to a change of executive management. The new executive then introduces organizational change. Fligstein (1991) showed changes in the market context led to changes in the relative power of functional groups within an American corporation – specially, from manufacturing, to sales and marketing, to finance – which led to a shift in strategy and organization from a vertically integrated and undiversified form to an unrelated and diversified corporation.

The institutional context also acts to configure the power and status of groups within an organization and not necessarily in a manner consistent with market exigencies. Mimetic, normative, and coercive processes are part of the institutional context. Concerning SMA, different organizations face different pressures and have different incentives to adopt innovative practices and change their systems in place. For example, some firms can be more willing to imitate other firms' practices (a mimetic process); some companies might have closer cooperation with consulting companies and be more adaptive to the external suggestions (another mimetic process); 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 an accounting department (normative pressure deriving from education and professional training) .

In all, the central point concerning the institutional environment is that organizations receive prescribed ideas about appropriate templates of organizing operations. The strength of and clarity of different pressures (either economic or institutional) may change over time. Particular organizations do not respond to a template of organizing, but, over time, they do respond to evolving and competing templates on offer (Greenwood and Hinings, 1996). This leads to two issues: how do individual organizations respond and why do they differ in their responses. The answers to these questions, the neo-institutionalists believe, lie with the intraorganizational dynamics.

3.5.2 Intraorganizational Dynamics

Organizations respond to institutional contexts differently. To understand the differences, organizations are conceptualized in the neoinstitutional framework as heterogeneous entities composed of functionally differentiated groups of individuals pursuing their own goals and promoting their own interests. How organizations 'respond' to external institutional prescriptions is a function of the internal dynamics that are shaped by different interests and power configurations. Four aspects of an organization's internal dynamics are focused upon, namely, interests, values, power dependencies, and capacity

for action. The neo-institutionalists believe that the role of intraorganizational dynamics in accepting and rejecting institutionalized practices is critical. However, power and interests have been largely overlooked in traditional institutional analysis (DiMaggio and Powell, 1991).

Central to this neo-institutional perspective is the role 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. Thus, in any organization are the seeds of alternative ways of viewing the purposes of that organization, the ways in which it might be appropriately organized, and the ways in which its actions might be evaluated. One outcome of such organizational differentiation is that groups seek to translate their interests into favorable allocations of scarce and valued organizational resources. Thus, a potential pressure for change and/or inertia, therefore, is the extent to which groups are dissatisfied with how their interests are accommodated within an organization. A high pressure of dissatisfaction can become a pressure for change.

Dissatisfaction, however, does not provide direction for change. Intense pressure arising from dissatisfaction with the accommodation of different interests will not lead to change unless the dissatisfied groups recognize the connection between the prevailing template (which shapes the distribution of privilege and disadvantage) and their position of disadvantage. Only when an alternative template (which potentially offers better resource allocation

towards the disadvantaged groups) surfaces and registers with those with interests dissatisfied will lead to possible change. Thus, what becomes critically important in explaining the possibility of change is the pattern of value commitments within the organization. Greenwood and Hinings identify four generic patterns, which are:

1. Status quo commitment, in which all groups are committed to the prevailing institutionalized template-in-use.
2. Indifferent commitment, in which groups are neither committed nor opposed to the template-in-use.
3. Competitive commitment, in which groups are divided in preferences and in turn support different templates.
4. Reformative commitment, in which all groups are opposed to the template-in-use and prefer an articulated alternative.

One of the crucial attributes of value commitments is that they can become taken-for-granted and serve to mute or temper expressions of dissatisfaction. That is, dissatisfied groups may not recognize that the prevailing template is a cause of that disadvantage. This is similar to the concept of 'routines' discussed in the OI framework (Burns and Scapens, 2000). Routines represent the patterns of thought and action which are habitually adopted by groups of individuals, and are recognized as how things should be done. For example, if the annual sales budget has always been set as 10% increase on the basis of the previous year's budget performance, it gradually become a routine and people just take for granted that this is how it should be without

questioning whether 10% targeted increase is a rationalized or simply random choice. However, 'value commitments' or 'routines' can change, if organizational actors have strong dissatisfaction and express their different interests, and also if they are able to assemble the resources and power to question the existing 'value commitments' or 'routines'.

Interests and values have been described as *discrete* precipitators of pressure for change (Greenwood and Hinings, 1996). That is, internal pressures for change derive from interest dissatisfaction and the pattern of value commitments.

Changes, however, will occur only in conjunction with an appropriate 'capacity for action' and supportive power dependencies. Groups with different beliefs and interests use favourable power dependencies to promote their interests. As Fligstein (1991,p.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*'. Burns and Scapens (2000) also stress that formal change normally occurs by conscious design and through the actions of a powerful individual or group. Noticeably, there is a reciprocal relationship between power dependencies and value commitment. The prevailing archetypal template in an organization grants more power to some groups and not to others. To the extent that groups recognize this link, it will be to their advantage to promote the norms of that template. Positions of power also can be used to buttress the prevailing archetype (Covaleski & Dirsmith, 1988). Hence, in a situation of a competitive pattern of commitment, change

would not be the likely outcome, unless those in positions of privilege and power were in favor of the proposed change. Power dependencies either enable or suppress radical organizational change.

The second enabling dynamic, capacity for action, is the ability to manage the transition process from one template to another. Three aspects must be highlighted here. Change cannot occur without the organization's 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. Greenwood and Hinings (1996) term the 'capacity for action' as embracing both the availability of these skills and resources within an organization and the enactment of leadership. By itself, however, capacity for action would not be expected to precipitate change. A motivation for change is needed driven by either a reformative or competitive pattern of value commitment.

Power dependencies and capacity for action are necessary but not sufficient conditions for radical organizational change. By themselves they will not lead to radical change, but they can enable or constrain it. Most importantly, shift in power dependencies, whether brought about by market and/or institutional pressures, will produce radical change only if the dominant coalition recognizes the weakness of existing template arrangements and is aware of potential alternatives.

3.5.3 Neoinstitutional framework for this study

The neoinstitutional framework employed in this study for understanding SMA practices is summarized in the Figure 3-3 as shown below. This encompasses exogenous (market context, institutional context) and endogenous dynamics (interests, values, power dependences, and capacity for action). As stated by Greenwood and Hinings (1996, p.1023),

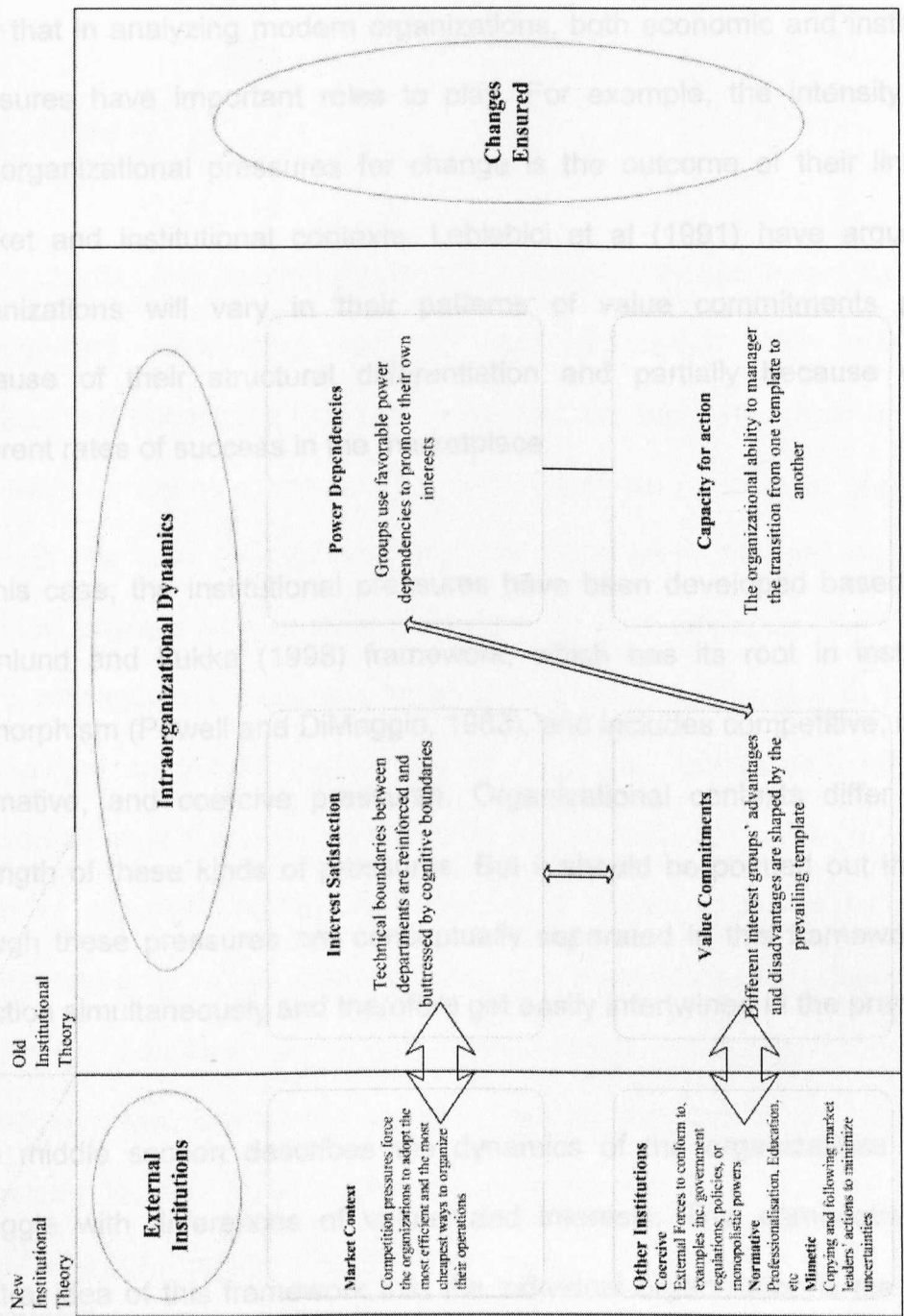
'It's this convergence around multiple themes, the coming together of the old and the new institutionalism that we label neo-institutionalism'.

Thus, the advance achieved in this neoinstitutional framework is that it addresses the interplay between organizational context and organizational action explicitly and pays attention to many important intraorganizational issues, such as power, interests, and commitments.

Greenwood and Hinings (1993, 1996) state that neoinstitutionalism emphasizes the fact that the configuration or pattern of an organizations' structures and systems are provided by underpinning ideas and values. Organizational arrangements are expressed in terms of templates or archetypes, which is consistent with DiMaggio and Powell (1991)'s statement that institutional context provides 'templates for organizing' (p.27).

Thinking of organizational arrangements in terms of templates or archetypes provides a robust definition of radical and convergent change. Greenwood and Hinings (1993, 1996) explained that convergent change occurs within 'the parameters of an existing archetypal template'. Radical change, in contrast, occurs when an organization moves from one dominating template to another.

Figure 3-3 Neoinstitutional Framework



Adopted from Greenwood and Hinings (1996). Understanding radical organizational change: bringing together the old and the new institutionalism. P. 1034

As shown in Figure 3-3 above, the left hand side of the Figure shows the institutional contexts of the organizations. Granlund and Lukka (1998) hold the view that in analyzing modern organizations, both economic and institutional pressures have important roles to play. For example, the intensity of the intraorganizational pressures for change is the outcome of their links with market and institutional contexts. Leblebici et al (1991) have argued that organizations will vary in their patterns of value commitments partially because of their structural differentiation and partially because of their different rates of success in the marketplace.

In this case, the institutional pressures have been developed based on the Granlund and Lukka (1998) framework, which has its root in institutional isomorphism (Powell and DiMaggio, 1983), and includes competitive, mimetic, normative, and coercive pressures. Organizational contexts differ in their strength of these kinds of pressures. But it should be pointed out that even though these pressures are conceptually separated in this framework; they function simultaneously and therefore get easily intertwined in the practice.

The middle section describes the dynamics of the organizations as they struggle with differences of values and interests. This demonstrates one central idea of this framework that the individual organization is the locus of institutionalization and the primary unit of analysis. To obtain detailed knowledge of the organizational change process, it is critical to '*emphasize the details of an organization's interaction with its environment over time*'

(Brint and Karabel, 1991, p.352) and pay attention to the beliefs and actions of those who have the power to define directions and interests.

3.6 Conclusion

In this chapter, the epistemological and ontological issues underlying current management accounting research are discussed. The mainstream management accounting research in the past has been influenced heavily by positivism (epistemological position) and objectivism (ontological position). In line with this view, management accounting had been depicted largely as a technical process with prevailing attention on cost efficiency. But in recent years, management accounting research has gradually changed its focus, as researchers started to realize that as much as management accounting focuses on attaining economic efficiency, it is also used to legitimize particular forms of organizational activities and as a source of power for different interest groups within organizations. By recognizing that management accounting practices are socially constructed, management accounting researchers also believe the practices can be changed by the activities of individuals located within a specific social context. The recognition of the importance of human actions is an essential feature of the emerging interpretive approach (Lukka and Mouritsen 2002). Management accounting, as a research subject, has been more and more regarded as being social scientific, as appropriate standards of enquiry are applied to social issues rather than natural phenomena (Luft and Shields, 2002).

To explore the adoption of SMA practices in organizational settings in this study, the view of Tomkins and Groves (1983) is used that social science research method is more appropriate for this research purpose. Such research would use field study methods, to examine accounting operations in their natural settings, to explore the interactions with their broader organizational and social context. Thus, in contrast to natural scientific method, which is based on abstraction, reductionism and statistical examination, social researchers focus more on developing holistic theories to interpret day-to-day accounting practices in the context of the wider social systems of which they are part.

Concerning which theory conveys most useful and appropriate ideas in guiding empirical research into SMA phenomena, conventionally adopted economic theories are compared with emerging institutional theories. Traditional management accounting research relies on economic assumptions like certainty, costless information and rational decision-making. This economic approach influenced many management accounting practices in almost all the major topic areas, including planning, cost classification, control and costing (Scapens and Arnold, 1986), and has significant impact on the emergence of management accounting techniques in the academic literature. However, these economic assumptions have been increasingly challenged (Walker, 1998; Luft and Shields, 2002), especially regarding unbounded rationality and market equilibrium.

Whilst economic theories might be useful in predicting general economic patterns and trends at a industry or market level, their ability in predicting and explaining individual economic behaviour in an individual organization is very much limited (Walker 1998). In terms of SMA practices, economic explanations tend to picture SMA practices narrowly as technical processes and only focus on static investigation of whether certain SMA practices are adopted and whether accountants play strategic roles. Burns and Scapens (2000) argue that although economic approaches may be able to suggest new techniques, they do not assist our understanding of how such techniques come to be used in organizations, or the nature of resistance to their use. Therefore, it is necessary to go beyond 'pure' economic explanations. Organizational and sociological theories (in this case, especially institutional theories), which explicitly recognize issues of social control and coordination in organizations, provide valuable intellectual approaches to examine the SMA practices in their organizational and social context (Covaleski, *et al*, 1996) .

The employment of institutional theories reflects the interests of many researchers who view management accounting practices as socially constructed (See for example, Hines, 1988; Lukka, 1990; Lukka and Kasanen, 1995). Compared to conventional wisdom of economic theories, institutional theories criticize the neoclassical economics perspective from the respect that the coordination of organizational activities is not merely a matter of price-mediated transactions in markets, but is influenced by a wide range of

economic and social forces which are important topics for enquiry (Langlois, 1986).

Two widely used institutional theories, NI and OI, are introduced in this chapter. From the point of view of understanding management accounting change, OI suggests that change is one of the dynamics of individual organizations as they struggle with different values and interests. NI emphasizes the influences of external environments and organizations within sectors. The emphasis is particularly on how the social world constitutes social actors' behaviours.

Although both OI and NI bring new insights to the understanding of management accounting practices, neither of them make clear linkages between organizational dynamism and external institutional environments when strategic change happens. Several management accounting researchers have pointed out that it is critical to articulate how contextual pressures are interpreted and acted upon by organizational actors in their adoption or denial of management accounting practices. Malmi (1997) emphasized the fact that too little attention is currently paid to the various aspirations and behaviour patterns of different organizational stakeholders. Granlund (2001) also emphasized that human factors make a useful complement to the conventional 'institutional isomorphism' analysis. Burns and Scapens (2000) also argue that the understanding of management accounting change needs to embrace both the intra-organizational processes and the broader, extra-organizational institutional dimensions. Such broader

dimensions form part of the cumulative institutional context in which the intra-organizational processes of change operate.

The recent contribution of a neoinstitutional framework (Powell, 1991; Greenwood and Hinings, 1996) combines the insights from both NI and OI theories and has the potential to offers 'an excellent basis' (Dougherty, 1994, p.108) for an account of organizational change. The advance achieved in this neoinstitutional framework is that it addressees the interplay between organizational context and organizational reactions which are shaped largely by interests and power of organizational individuals.

The neoinstitutional framework has placed considerable attention on intra-organizational reactions to the external institutional influences. Compared to NI, organizations' responses to institutional pressures and expectations are no longer assumed to be invariably passive and conforming across all institutional conditions. Instead, how organizations respond to 'institutional prescriptions', become a function of '*internal dynamics*', which involve power and interests of organizational actors (Greenwood and Hinings, 1996, p.1024). This framework makes explicit claims to contribute to our understanding of the behaviour of organizations in institutional contexts and the conditions under which organizations will accept or resist institutionalization in terms of interests and power. This framework can be potentially useful as it facilitates a systematic examination of the SMA phenomena from both inside and outside of organizations, and offers important guidance to research design.

CHAPTER 4 RESEARCH METHOD

4.1 Introduction

Following on the interpretivist approach and the neoinstitutional framework articulated in chapter 3, this chapter focuses on discussing the research strategy, research method, and research design.

A research strategy is regarded as a general orientation of the conduct of a research process (Ryan, et al, 2003). Many writers on methodological issues find it helpful to categorize different research strategies into two distinctive camps, namely quantitative and qualitative (Saunders and Lewis, 2000; Ghauri and Gronhaug, 2002). On the surface, it seems the only difference between qualitative and quantitative strategies is that quantitative researchers employ measurement and qualitative researchers do not. But many writers have suggested that the differences are deeper than the presence or absence of quantification. The fundamental difference between qualitative and quantitative research is established in their individual epistemological and ontological foundations, and their connections of theory and practices.

A research design provides a framework for the collection and analysis of data. Typical research designs include experimental design, cross-sectional survey, longitudinal design, and case study design.

A research method is a technique for collecting data. It normally involves specific instruments, such as questionnaires, interviews, or participant observation.

Different kinds of research designs tend to deploy different research methods. For example, cross-sectional survey normally relies upon questionnaires, and case study design predominantly uses interviews to obtain necessary information (Scandura and Williams, 2000). Generally, a research design provides the guidance to the execution of a research method and the analysis of the subsequent data.

Following the argument put forward in the previous chapter which suggest that the conduct of SMA research should be explanatory and interpretive in nature and employ social theories (especially neoinstitutional theory) to facilitate the investigation of SMA in real organizational settings, this study calls for a more robust methodology that emphasizes the employment of more diversified research designs and multiple research methods. The value of using multiple methods to understand complex phenomenon has been appraised by many management accounting researchers (Atkinson, et al, 1997). The rationale behind this research design of adopting multiple methods can be found from two aspects. First different methods can serve different research purposes. Second, using a multiple-method approach enables triangulation between the different research methods to enhance research validity.

This chapter discusses the research strategy and research design for this study.

4.2 Research Strategies

4.2.1 Qualitative and Quantitative Strategies

Quantitative research emphasizes quantification in the collection and analysis of data and entails several characteristics (Bryman and Bell, 2003). Firstly, it is often linked with a deductive approach to the relationship between theory and research, and emphasis is placed on the testing of theories. Secondly, it incorporates the norms of natural sciences and of positivism in particular. Thirdly, it embodies a view of social reality as an external, objective reality.

By contrast, qualitative research is constructed as a research strategy that usually emphasizes description of facts rather than measures in the collection and analysis of data. A qualitative research approach implies firstly, an inductive approach to the relationship between theory and research, in which the emphasis is placed on the generation of theories; and secondly, a preference of interpretivism; and thirdly, a view of social reality as a constantly emergent property of individuals' creation.

However, while we argue that these interconnections between epistemological issues and research strategies exist, it is important not to overstate them, as

they represent tendencies more than definitive facts. Particular epistemological principles and research practices do not necessarily go hand in hand in a neat and unambiguous manner. Bryman and Bell (2003) argue that *'discussing the nature of business research is just as complex as conducting research in the real world (p26)'*. For instance, it is commonly perceived that qualitative research is concerned with generating rather than testing theories. But there are examples of studies in which qualitative research has been employed to test rather than to generate theories. Silverman (1993), in particular, has argued that in more recent times qualitative researchers have become increasingly interested in the testing of theories. This is a reflection of the growing maturity of the qualitative strategy.

Therefore, quantitative and qualitative research represents different research strategies and each carries differences in terms of the role of theory, epistemological and ontological considerations. However, the distinction is not a rigid one, as we see many research works conducted have combined characteristics from both research strategies.

4.2.2 Research Strategy for SMA

Enquiries into SMA phenomena are still at an exploratory stage as there is still no agreed conceptual framework outlining what constitutes SMA (Tomkins and Carr, 1996). Consequently, the purpose of this study is to develop a more comprehensive understanding of the observed SMA practices in specific organizational environments. Qualitative research suits this research purpose

well as it emphasizes facts rather than qualification in the collection and analysis of data. As a research strategy, qualitative research is usually inductivist, constructionist, and interpretivist.

Interpretivism, as an epistemological stance, suits well the purposes of finding out 'what is happening; to seek new insights; to ask questions and to assess phenomena in a new light' (Robson, 1993, p.42). The strength of interpretive studies lies in their flexibility and readiness to adapt to change when new data and new ideas arise. But following this interpretive approach does not mean this research is not guided by any theory nor does it mean the ultimate purpose of this study is to generate new theories. Instead, the theories employed in this research are serving the research objectives as a 'sensitizing' device in that they offer 'a general sense of reference and guidance in approaching empirical instances' (Blumer, 1954, p.7). Therefore, theories are employed in this study in such a way that they give a very general sense of what to look for and act as a means for uncovering the variety of the observed social phenomena.

A neoinstitutional framework is used to help to focus the inquiry, and to assist interpretation of the case studies. But the research explanations come from the case, not from the theory. Neoinstitutional theories provide an appropriate lens from which to make sense of the complexity around SMA practices. The case evidence can also illustrate how useful the adopted theories can be in explaining the phenomena under review.

4.3 Research Design

A choice of research design reflects decisions about the priority being given to a range of dimensions of the research processes, whether it is to express causal connections between variables, generalizing to a large population, or investigating the social phenomena and their interconnections with social contexts. As mentioned earlier, the research design for this study should help understand SMA practices as organizational behaviours and interpret the meanings of these behaviours in their specific organizational contexts. Following the interpretive route, the study relies heavily on the case study method. Research using an inductive approach is particularly concerned with the context in which events were taking place. Therefore the study of a small sample of subjects may be more appropriate than a large number as with the deductive approach. But a qualitative strategy does not ignore the value of quantification. A small cross-sectional questionnaire survey is conducted in this study. It is intended that the survey serves as a foundation and provides valuable information for the further inductive research processes, i.e., in helping the gathering of ideas to guide further case studies. After the analysis of the survey feedback, two case studies were carried out. Several enquiries generated from survey results were further explored in the case studies.

Below is the detailed description of the two research designs employed in this study.

4.3.1 Survey

Management accounting researchers have a long tradition in using cross-sectional studies, in which measures of the relevant variables are obtained by mail or interview-based questionnaire, to identify relationships between particular environmental, organizational, behavioural and accounting variables. Contingency theory researchers provide a good illustration of this type of work (Chenhall and Langfield-Smith, 1998c; Guilding et al, 2000; Cagwin and Bouwman, 2002). It is assumed that knowledge of generalisable relationships will enable managers to design accounting systems which are compatible with the characteristics of their organization. Also, surveys allow the collection and comparison of a large amount of data *'from a sizable population in a highly economical way* (Saunders, et al, 2000, p.94)'.

In this study, a questionnaire survey serves a preliminary purpose in answering the research question relating to the current situation of various SMA practices' adoption and perceived value among large British firms. It has been shown that SMA has accumulated many techniques concerning every aspect of management accounting. Recent empirical evidence has conveyed different signals. For example, Guilding, et al (2000) conducted a cross-sectional survey investigating the status of a list SMA techniques' application and perceived merits. Their survey results disclosed that different SMA practices were experiencing widely ranging degrees of application, but the usage rates for most of these SMA practices scored relatively low. On the other hand, Guilding (1999) reported the adoption of competitor-focused

accounting was fairly high. Therefore, an up-to-date survey on the SMA practices can help generate the latest knowledge on the application status of various SMA practices and facilitate comparison with earlier studies.

Due to the finance constraints and the time frame of PhD study, samples in this questionnaire survey comprise only large (in terms of turnover) companies in the United Kingdom, drawn from the F.A.M.E database of the largest 100 companies. Therefore, the result can only be indicative of the UK population, not other countries. Choosing the largest companies in the U.K as a survey sample is justified based on the fact that UK represents a significant economy in the western world. As large organizations may have more resources for the development of innovations, it seems likely that they will experiment more with innovative accounting systems (Chenhall and Langfield-Smith 1998c), while small companies, due to their financial constraints and comparatively less complex management processes, may require fewer advanced management accounting techniques.

The questionnaire employed in this study was designed as an extension to the work Guilding et al (2000). The replication of a well tested survey design is inspired by the survey studies conducted by Innes et al (1995, 1999). In their works, the same survey questionnaire was used both in 1994 and 1999 to assess the nature and significance of changes during this period in ABC adoption rates and patterns of use. This design is used to overcome the 'snap-shot measure' of the extent of ABC adoption at one location and at one point in time (Innes, et al, 1999, p.350). In this study, the replication of

Guiliding et al (2000) work serves the purpose of appraising how the adoption of SMA practices has actually progressed at a general level over time.

In the questionnaire designed for this study, in addition to the original questions provided by the Guiliding et al (2000), two new variables pertinent to the application of SMA practices are added. These are the participation of accountants in the strategy process, and reference to strategy typology adopted by the respondent firms. To reflect new trends emerging in SMA literature, more SMA techniques are included, expanding from 12 in 2000 survey to 16 in total. All these 16 techniques are subsequently categorized into three subgroups based on their main functions, namely strategic costing and pricing, competitor accounting and customer accounting.

Attached in Appendix 3 is the detailed description of the questionnaire format.

In this study, the survey was conducted in five stages.

First of all, a list of the potential respondents was identified using both CIMA network and F.A.M.E database. As to whom the researcher should address, chief management accountants and financial directors made the best choices owing to their knowledge base and daily work contents. Initial contacts with these potential respondents were made by telephone to briefly explain the research intention and make sure they are willing to participate in the survey. For those particular individuals who were not 'reachable' at that moment or

who were not in the best position to answer the questionnaire, the researcher politely asked the company to help identify and provide other names to address the questionnaire to. This procedure was conducted to guarantee the later mail-out questionnaire could achieve the highest possible reply based on this prior agreement.

Secondly, title letters concerning this SMA survey were sent to the appropriate company contacts. Please see Appendix 2 for detail. In the title letter, the intention and importance of this survey was clearly stated, and procedures explained in detail. The researcher also emphasized the confidentiality of the data to be received and anonymous treatment of the data sources concerning participating companies and individuals.

Thirdly, the questionnaires were sent out to the participating companies. To assist the understanding of the questionnaire, a brief glossary was provided with the definitions and explanations of relevant SMA terms. A stamp-free return envelope was also provided with each questionnaire sent out.

Fourthly, a reminder letter was sent after 3 weeks of the initial dispatch of questionnaires to those companies that had not returned the questionnaire feedback.

Finally, a final round of questionnaires was dispatched after another 3 weeks to those companies that had not replied. Accompanying phone calls were also made to the particular individuals to stimulate their replies and investigate

reasons of delayed replies.

As a final result, a total of usable responses amount to 32 out of 100 were gathered (response rate 32%). The new survey results were used to compare with the Guilding et al (2000)'s study to discover how SMA had developed over the 5-year period from 2000-2005. By examining the adoption rates and perceived values of SMA practices, changes occurring over the 5-year period can be assessed. By observing the changes in adoption rates and perceived merit scores of individual SMA practice, two research interests can be served: firstly, the general picture of SMA development can be captured in large UK organizations, and secondly, case study research requests can be informed by the results thus supporting further investigation into SMA practices.

4.3.2 Case study

Survey studies are subject to the methodological limitations related to economics-based positive management accounting research (Ryan, et al, 2003). They can indicate general trends, but they cannot explain the processes through which SMA practices evolve in particular organizations. The reliance on statistically significant correlations cannot explain why some practices succeed in certain organizations, but fail in others. This approach does not offer management accounting researchers sufficient insight into investigating the reasons of success or failures of the adoption of SMA practices in particular organizational settings.

Interpretivists also question the possibility of producing 'law-like' statistical generalizations in business research as in the natural sciences (Saunders, et al., 2000) as statistical generalizability might not be the most critical issue that management accounting researchers are pursuing. Management accounting research fundamentally is an applied research subject, the results of which should ultimately provide new insights for practice (Ittner and Lacker, 2002).

To overcome the limitations of the sole use of survey insights, this study also adopted the case study method, which Yin (1989, p.23) defines 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'.

So far as SMA practices are concerned, the case study method offers a comparative advantage of describing innovative management accounting phenomena and the settings in which they exist. (p11, Shields, 1997). In other words, management accounting changes happening within management accounting can be effectively interpreted in relation to the particular organizational and environmental contexts.

Guiding (1999) suggests that a case study design can be a potentially fruitful research initiative. Close involvement in one or more organizations may be

the most appropriate means to further our understanding of the variety of forms that SMA can assume. A more comprehensive appreciation of organizational factors affecting the adoption of SMA can be achieved as well as an improved understanding of the different uses that are made of SMA.

Theoretically informed case study research has been subject to numerous calls over recent decades (Atkinson et al, 1997; Shields, 1997). In this thesis, the researcher attempts not only to report the innovative SMA practices, but also to tease out the historical development of SMA practices and the dynamics around the research subject (Scapens and Bromwich, 2001). In other words, the attention is paid to the management accounting change processes the organizations have gone through.

Case studies can be further divided into exploratory case study and explanatory case study (Ryan et al, 2003). If the main purpose of case study is to generate hypotheses which can be tested subsequently in large-scale studies, then this type of case study has an exploratory nature. As such, the case study represents a preliminary investigation and the objective of the subsequent research is to produce generalizations.

In contrast, an explanatory case study attempts to explain the reasons for observed accounting practices. The focus is thus on the specific cases. Theory is used in order to understand and explain the specific, rather than to produce generalizations. The theory is useful if it enables the researcher to provide convincing explanations as to the observed practices.

In this thesis, case studies of an explanatory nature will play an important role. As Ahrens and Dent (1998) argued, the scope of accounting research in organizations has been limited. The potential of field research to provide rich accounts of the often very complex relationships between organizational contexts and the functioning of accounting have not been discussed in great detail. Therefore, more detailed case studies should be conducted to bring out the different voices around accounting in organizations. This suits the purpose of this study in the sense that SMA has been proposed for more than two decades (Simmonds, 1981), however, the effects of SMA in helping organizations achieve better performance are still ambiguous and sometimes, even contradictory (Load, 1996, Cooper, 1996). Ernst and Ewert (1999) believed 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' (P.45).

Thus, capturing the complexity of SMA practices and its adoption is a major opportunity offered in case research methods. These vigilantly planned and conducted case studies can offer new and fresh perspectives. In addition, it is argued in this study that the number of case studies is not the most critical issues in judging the research quality achieved, but the validity of the case description and analysis. As the interpretivist perspective is looking more for

theoretical generalization and 'transferability' to other cases and further theory development rather than statistical analysis. The research attention on this study is therefore to achieve a thorough understanding of how SMA practices interact within the companies' specific settings, and how the management accounting changes have been mobilized in the case companies.

"...It may be that contextual generalizations, being drawn from practical settings situated in specific social, organizational and behavioural contexts, can produce meaningful results compared with the promises produced by the statistical generalization rhetoric."(P.809, Lukka and Mouritsen, 2002)

4.4 Description of the two case companies

In this study, two case studies conducted served as the main body of the research work. Several companies from the survey mailing list replied to the request of further collaboration. Two target companies were selected from the survey list. ULE and Meditech attracted the researcher's attention as they both indicate in their questionnaire replies that they had experienced recent accounting change.

Obtaining access and maintaining a close relationship with the companies is of vital importance in this research. Saunders et al (2002) differentiate between physical and cognitive access. A granted entry into an organization

does not guarantee the desired cooperation from the personnel whom the researchers wish to interview, survey or observe. Therefore, the access may need to be developed on an incremental basis. From the perspective of gaining access, the researcher finds it is important to identify feasible research questions, related objectives and strategies. To begin with, the researcher specifies as clearly as possible the research questions. This procedure is important to make sure the extent and nature of the access needed for the research objectives is sufficiently considered and articulated to the company contacts. Providing a clear account of purpose and type of access required for the research has proved helpful in negotiating access. This allows the potential participants to be aware of what is required from them and helps the researcher to establish credibility (Robson, 2000).

Prior to the conduct of the case studies, a checklist of research objectives to look for in the study is drawn up. Appendix 4 presents a checklist of research objectives and research questions that researcher intended to explore in detail in the case studies. To help keep the flexibility to explore the issues to the interests of this study, the detailed research questions in this study actually evolved along with the development of the research process and the emergence of new information. In addition, confidentiality and anonymity were assured at the beginning of each interview session, necessary ethical documents were signed between the researcher and the participating companies.

The original data about both case companies was collected during the period

2004 to 2006, empirical materials concerning both companies were obtained from several data sources, which include,

- Background Information. Detailed background information was gathered before field visits and interviews to assist the researcher gain an up-to-date knowledge concerning the broad organizational information and certain knowledge of the area of research interest. This includes annual reports, organizational PR materials, and internet-based information.
- Interview information. Many interviews were conducted with key organizational personnel. The choice of interviewee covered all levels of organizational hierarchy, from director level to operational level. Not only financial personnel were interviewed, but also personnel from other functional areas such marketing, sales, R&D and operations to obtain a comprehensive understanding of the impact of the SMA practices.
- Internal information. Documentary evidence was also collected from the two companies with their approval. This evidence included internal management reports, meeting records, and training materials, etc.

As far as data collection method is concerned, the interview method played a key role in the case studies. The degree to which the interviews are structured depends on the research topic and purpose, resources, methodological

standards and preferences, and the type of information sought, which is determined by the research objective (Saunders, 2000). To suit the exploratory and explanatory nature of this study, the main form adopted was semi-structured interview. Semi-structured interviews lie somewhere between structured and unstructured interviews in the sense that broad themes were agreed with interviewees in advance, but flexibility was also emphasized to allow interviewees to explain their opinions in full and interviewers to discover and explore important research issues in detail.

Initial contacts with both companies were established through their senior finance managers, who both had participated in the pilot questionnaire survey in 2005. Managers from both companies proved particularly helpful for arranging visits to their sites and interviews with their colleagues, at different sites, different departments, and different levels of seniority. Several company visits were conducted with each company. A typical company visit normally involved several pre-arranged interview sessions, company site visit and document collection. All the interviews in these two companies were tape-recorded and notes taken at the same time. Transcriptions were produced immediately after the interviews. Complementary materials, such as management reports, manuals and memos were also collected. Many informal conversations held with informants also provided valuable clues as to how interviews and documents should be interpreted.

4.4.1 Case Company One –ULE

ULE is one of the world's largest suppliers of consumer goods, including many well-known household brands. In recent years, ULE realized that it had to restructure its brand portfolio and operations to meet the challenges brought about by the changing market conditions (for example, rapid growth in the retail market in recent decades had moved from traditional supermarket sector to the convenience sector) and fierce competition. In 2000, the company announced a billion-dollar 'Path to Growth' Strategy (PGS), aimed at bringing about a significant improvement to its performance. This strategy exercise had been focused heavily on consolidating its brand positioning and strengthening its marketing efforts. In supporting the PGS, finance academy⁶ launched a 'Business Partnering (BP)' program, to help instil financial awareness into marketing and commercial activities. Management accountants developed an increasingly close involvement closely with these business areas.

In this case, the UK Division served as the main research site to demonstrate how business partnering program worked. The range of activities, and the complexity and large scale of operations made the UK Division an ideal research site. The initial insight that this site gave the researcher was that it was still in an ongoing process to roll out a series of successfully conducted

⁶ The function of Finance Academy is to design, implement innovative financial management techniques to assist the organization's strategic excellence and individual units' pursuit of efficiency. Finance Academy, as an R&D function, is located at the group headquarters and reports directly to the financial director.

Business Partnering practices. Many SMA innovations were embedded in these ‘partnering’ activities. In addition, in order to extract insights for comprehensive understanding the effects and impacts of BP operations, interviews were not only conducted with participating management accountants and financial managers, but also their colleagues from marketing and sales functions. Detailed Interviewee list can be found in the table below.

Table 4-1 Interviewees of ULE

Interviewees	Code	Number of interview conducted
Vice President of Finance Academy	VP	1
BP change program leader	PL	3
Food Division Operation Manager	OM	1
Accounting Partner 1	AP1	2
Accounting Partner 2	AP2	2
Marketing Manager	MM	1
Customer Account Manager 1	CAM1	1
Customer Account Manager 2	CAM2	1
Total		12

4.4.2 Case Company Two – Meditech

Meditech group is a global medical technology company operating in 33 countries with 4 global business units (GBUs). It has been more than 150 years since Meditech first set itself up as a family business in England. Since that time, the Company has grown into a global conglomerate, and now is the UK’s largest medical technology company and one of the top companies in its field in the world.

During the last decade, Meditech has gone through a series of changes reshaping its organizational structure from regional structure to GBU structure. These changes have been helpful in reshaping the company into a successful global high-tech icon in providing a wide range of healthcare products. These changes have also led to a noticeable transformation of its management accounting operations. Many innovative SMA practices have been developed to strengthen the marketing and brand efforts.

Due to the wide scope of the company operations in various fields, this case study has chosen to focus the research attention on one of the GBUs, Advanced Wound Management (AWM). AWM is the second largest GBU within the group and it is a world leading provider of advanced wound care products used to treat hard-to-heal wounds. A summary of interviewees is attached in the table below.

Table 4-2 Interviewees of Meditech

Interviewees	Code	Number of interview conducted
GBU Financial Director	FD	1
Senior Financial Manager 1	FM1	3
Senior Financial Manager 2	FM2	2
Operation Manager	OM	3
Marketing Manager 1	MM1	2
Marketing Manager 2	MM2	1
Business Intelligence Manager	BIM	1
IBP director	IBPD	2
Total		14

4.5 Research Validity

As McGrath (1982) stated, the production of unflawed study is not possible. Any research design chosen will have inherent flaws and the choice of method will limit the conclusions that can be drawn. To ensure the quality of any empirical social research, researchers must pay attention to the requirement of research validity. Yin (2003, p.34) summarizes that there are three kinds of validity, which include,

- Construct validity: establishing correct operational measures for the concepts being studied
- Internal validity: establishing a causal relationship, whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationships
- External validity: establishing the domain to which a study's findings can be generalized

Scandura and Williams (2000) argue that no one research method can adequately cover all the aspects of validity, and so researchers need to obtain corroborating evidence from using a variety of methods to maximize the three kinds of validity. The use of both qualitative data (interviews) and survey data address both internal and external validity and improves the generalizability (affecting external validity) of interview data.

Most textbooks underscore the desirability of mixing research designs to help

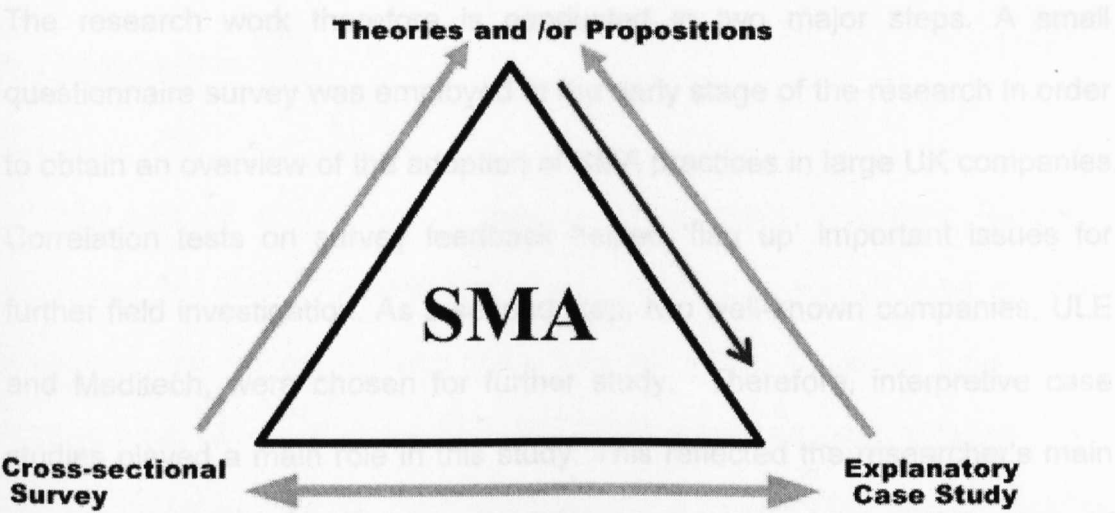
overcome the obvious weakness found in any single designs (Ghauri and Gronhaug, 2002; Gummesson, 2000; Smith, 2003). The involvement of more than one research method is the primary manner in which McGrath (1982) tackles the issue of research validity and it is known as triangulation.

To highlight the trade-offs that researchers must take in choosing research methods, McGrath (1982) proposed a 'three-horned dilemma' (p.72), implying the conflicts between generalizability to the population (external validity), precision in measurement and control of the behavioural variables (construct validity), and realism of context (internal validity). Generally speaking, case studies are regarded as high on precision in measurement and control, medium high on existential realism, but low on generalizability; surveys are high on generalizability, but low on the other two. Due to this 'dilemma', to maximize on one aspect is to have relatively unfavorable levels of the other two. It is therefore particularly valuable to obtain corroborating evidence from using a variety of complementary research designs. A good example of combining both quantitative survey and qualitative fieldwork to counter the trade-offs can be found in Anderson and Lanen (1999)'s paper. In their study, in order to explore the influences of Indian economic transition upon the management accounting practices, they firstly conducted an extensive survey of competitive strategy and management accounting practices that included both qualitative and quantitative responses to 206 objective and subjective questions. Second, personal interviews of top managers and site visits to half of the firms were conducted. Thus, interview data was used to corroborate and extend the survey data.

When considering the two main research methods used in this thesis in the 'three-horned dilemma' context, it appears that it is optimal and desirable to combine both research methods in this study to achieve more robust and generalisable findings. In this study, the triangulation design is depicted in a diagram shown in the Figure 4-1.

Many researchers argue that triangulation within a substantive area of research can be examined by looking at the research strategies employed over time. In other words, triangulation patterns also evolve along with the maturity of an area of research (Scandura and Williams, 2000). In the evolution process of the study of SMA, research work began with interviews to describe the innovative SMA practices observed. Later as these practices became more theorized, researchers started to employ cross-sectional surveys to test the impact of these practices on dependent variables (such as in economic terms, e.g. stock market return). When implementation problems and low adoption rates were reflected in some of these studies, researchers started to pay more attention to social and organizational aspects, instead of the technical aspects. These studies are more diversified, investigating how SMA practices influence every aspects of corporate behaviour (decision-making, performance measures, control, planning, etc). This study mirrors such a development and uses a survey to provide statistical evidence of the general trend of SMA adoption, and to extract major research questions. Case studies are then conducted to make more focused enquiry with greater reference to the organizational settings.

Figure 4-1 Triangulation of research methods for SMA study



Source : adapted from Spicer B.H (1992) *Research Methods for Management Accounting Change*

4.6 Summary

This chapter provides an overview of the research strategy and research design of the study.

Due to the exploratory nature of this study, a qualitative research strategy is considered appropriate. But taking the qualitative route does not ignore the value that quantitative research designs can convey. Because all research designs have different limitations and biases. To lend rigour and credibility to research, data should be collected through multiple research designs and from multiple sources. This is the merit of a triangulation methodology. For example, if responses collected through both case studies and surveys are strongly correlated with one another, then confidence can be gained about the

validity of the collected data.

The research work therefore is conducted in two major steps. A small questionnaire survey was employed at the early stage of the research in order to obtain an overview of the adoption of SMA practices in large UK companies. Correlation tests on survey feedback helped 'flag up' important issues for further field investigation. As a second step, two well-known companies, ULE and Meditech, were chosen for further study. Therefore, interpretive case studies played a main role in this study. This reflected the researcher's main research objective of offering in-depth understanding of the social nature of accounting practices by placing these practices in their organizational, economic and social contexts.

It must be noted, however, that there can be no such thing as an 'objective' case study (Scapens, *et al*, 2002). The social reality in which accounting practices are embedded must be interpreted by the researcher. Furthermore, case study researchers rely to a considerable extent on the descriptions of events provided by organizational participants. These descriptions are themselves based on the individual participants' interpretations of their reality. As such they do not represent unproblematic 'facts' concerning some absolute reality. Consequently, cases in this study are not attempting to locate some 'universal truths' or generalisable theories which explain accounting practice. It is the interpretation of the particular circumstances of the cases that offers the most valuable insights towards in-depth understanding of the SMA practices.

Chapter 5 SMA Survey Findings

5.1 Introduction

In their editorial of a special edition of *Management Accounting Research* dedicated to SMA, Tomkins and Carr (1996) questioned whether much empirical work concerned with SMA is taking place. Cross-sectional survey studies have been conducted by many management accounting researchers. But the use of surveys on SMA practices is a quite recent tendency. Guilding et al (2000) pointed out that there has been minimal attention being directed towards determining the incidence of SMA usage and this fact may be partially attributable to the relative lack of clarity of the definition or nature of SMA.

In recent years, SMA has attracted more and more research attention, which has been reflected in a growing number of survey studies of SMA practices. As discussed in the literature review chapter, some of these surveys focus on examining how popular certain SMA practices have been in certain countries (Chenhall and Langfield-Smith, 1998c; Guilding, et al, 2000); some on reporting whether SMA practices have significant relation with the organizations' economic performance (Gordon and Silvester, 1999; McGowan, 1999); while others put emphasis on what roles management accountants play in the strategic management process (Burns and Yazdifar, 2001). This empirical evidence, however, conveyed many contrasting signals. For example, the Guilding et al (2000) study disclosed that the usage rates for

most of these SMA practices scored relatively low, and different SMA practices were experiencing widely ranging degrees of application, but on the other hand, Guilding (1999) reported the adoption of competitor-focused accounting was fairly high. Another limitation of these survey studies is that they have treated the SMA practices as isolated variables and can only provide a static picture of what SMA practices are implemented in organizations, and whether management accountants are involved in strategic activities.

The literature review chapter demonstrates that the adoption of SMA practices is influenced by environmental, organizational, and behavioural factors, the linkages between SMA practices and these contextual factors deserve further examination, i.e. how SMA practices have been promoted and how management accountants have been involved in the strategic management processes in relation to the strategy types, the market conditions, etc.

In light of these limitations, in this study, a pilot questionnaire survey (See appendix 3 for details) was designed based on the questionnaire design of Guilding et al (2000) survey. The primary focus of this questionnaire survey was to investigate the current situation of various SMA practices in terms of adoption and perceived value of them among large UK firms. The new survey results are compared to the results of Guilding et al (2000) study. The purpose of this exercise was to examine the observed adoption rates and perceived values of SMA practices, and their changes over this 5-year period. Observing the adoption rates and perceived merits of individual SMA

practices, two research interests can be served: firstly, the current picture of SMA adoption in large UK organizations can be captured, and secondly, further research questions may be stimulated for follow-up case studies. Several new variables have been added, including the strategic typologies and the participation of management accountants in the strategy process. Correlation tests are conducted between these new variables and the SMA practices to test whether the adoption of different SMA practices is influenced by the organizations' different strategic orientations and the degree of management accountants' involvement in strategic management activities.

5.2 Research objectives of survey study

This chapter contributes to the exploration of the incidence of SMA usage. Five objectives are outlined below.

1. To appraise the incidence of a variety of SMA practices, and compare to the survey results of 2000 (Gilding, et al, 2000) to disclose the development of SMA practices over the 5 year period;
2. To assess the relationship between the adoption of SMA practices and the different strategy typologies.
3. To assess the relationship between the adoption of SMA practices and the different orientations of management accountants.
4. To assess the relationship between the strategy archetypes and the participation of management accountants in the strategy process.

5. To appraise the extent to which the term SMA is used and understood in practice.

5.3 SMA practices appraised

Based on the criteria developed in Chapter 2, 16 SMA practices were identified and subsequently incorporated into the questionnaire design. These are attribute costing, brand value budgeting and monitoring, competitor cost assessment, competitive position monitoring, competitor appraisal based on published financial statements, life cycle costing, quality costing, strategic costing, strategic pricing, target costing, value chain costing, customer profitability analysis, lifetime customer profitability analysis, valuation of customers or customer groups as assets, benchmarking, and integrated performance measurement. 11 out of these 16 SMA practices had been included in Guilding et al (2000) study. The 5 newly-added SMA practices have their major focus on customer and non-financial measures, which reflect the perceived increasing tendency for SMA to embrace a strong customer orientation and employment of non-financial measures. The origins of these practices are presented in Chapter 2 literature review. Brief definitions of these practices are also provided in appendix 1.

5.4 Variable measurement

These 16 SMA practices have been itemised in the questionnaire design to elicit usage rates and merit scores. Apart from the usage and merit evaluation,

several other variables were included in this questionnaire design to examine the relationship between the adoption of SMA, the strategy archetypes and the strategic participation of management accountants. Below are the main variables of this questionnaire survey.

SMA Usage. Following the question: "To what extent does your organization use the following practices?" the 16 SMA practices were itemised. Next to each item, a Likert scale ranging from "1" ("not at all"), to "7" ("to a great extent") was provided. A glossary was included to aid interpretation of SMA terminology.

Perceived merit of SMA. Similar to the format employed to measure SMA usage, following the question: "To what extent do you consider the following practices could be helpful to your organization?", the 16 SMA practices and the same seven point Likert scales together were provided.

Familiarity with the term "strategic management accounting". Two questions designed to determine practicing accountants' familiarity with the term "SMA" were also included in the questionnaire. The first question asked: "Prior to completing this questionnaire, do you consider you had a strong appreciation of what is meant by 'strategic management accounting'?" Responses to this question were recorded on a Likert scale ranging from "1" ("zero") to "7" ("very high"). The second question asked: "Is the term 'strategic management accounting' used in your organization?" Responses to this question were recorded on a Likert scale ranging from "1" ("never used") to "7" ("used frequently").

Participation of Accountants in the strategy Process. The extent to which the management accountants are involved in strategic management processes is appraised from several aspects. These aspects include how much they are involved in (1) identifying problems and proposing objectives; (2) generating options; (3) evaluating options; (4) developing details about options; (5) taking the necessary actions to put strategic changes into place. To each option, a Likert scale ranging from "1" ("not at all involved"), to "7" ("fully involved") is provided.

Strategy. In this section, a description of three kinds of imaginary organizations is presented, illustrating the different competitive strategies which relate to how business units compete. The design of this strategy variable is based on Miles and Snow's (1978) four strategic archetypes: "prospector", "analyser", "reactor" and "defender". The "prospector" archetype emphasizes being "first in" in new product and market areas, and *'responding rapidly to early signals concerning areas of opportunity'* (Snow & Hrebiniaky, 1980, p. 336). At the other extreme, the 'defender' archetype has more inwardly-focused characteristics, i.e. *'trying to protect its domain by offering higher quality, superior service, lower prices, and so forth'*, and *'it tends to ignore industry changes.... and concentrates instead on doing the best job possible in a limited area'* (p. 336). These characterizations highlight contrasting internal/external foci. Again, a Likert scale ranging from '1' (representing organization A) to '7' (organization C) is provided. Participants of the survey are indicated to select the scores that offer closest proximity to their organizations.

5.5 Findings

This survey emphasizes the fact that the criteria used for determining whether a management accounting practice qualifies as SMA are related to the extent to which the specific practice embodies '*strategic orientations*' (Guilding et al, 2000, p.117). To facilitate ease of exposition, these 16 SMA practices are conceptually categorized into 3 groups according to their distinctive functions, which are collectively referred to as 'strategic pricing and costing', 'competitor accounting', and 'customer accounting'. The same categorization was applied in Guilding et al (2000) survey concerning the first two groups, namely 'strategic pricing and costing' and 'competitor accounting'. The three newly added customer-related techniques form the third group, 'customer accounting'. Below are the main findings of the questionnaire result analysis.

5.5.1. *Strategic pricing and costing*

Seven SMA practices are associated with pricing and costing operations. These are "attribute costing", "life cycle costing", "quality costing", "strategic costing", "strategic pricing", "target costing", "value chain costing" and "strategic pricing". Findings relating to the usage rates and perceived merits are presented in Table 5-1 as shown below.

Table 5-1 Strategic Costing and Pricing Usage and Merit Mean Scores

	<u>Usage</u> <u>2000</u>	<u>Usage</u> <u>2005</u>	<u>Merit</u> <u>Score</u> <u>2000</u>	<u>Merit Score</u> <u>2005</u>
Strategic pricing	4.73	5.00	5.38	4.97
Strategic costing	3.72	4.20	4.94	4.32
Quality costing	3.11	2.84	3.98	3.58
Target costing	2.90	3.50	3.96	3.90
Value chain costing	2.60	3.78	3.40	4.63
Life cycle costing	2.60	3.00	3.58	3.75
Attribute costing	1.91	2.42	3.13	3.04
<i>N</i>	52	32	52	32

All items scored on a Likert scale where “1” denotes used “not at all”, and “7” denotes used “to a great extent”.

Source of 2000 data: Guilding et al (2000) an international comparison of strategic management accounting practices.

As shown in table 5-1, 6 SMA practices achieved higher usage rate in 2005. The only exception is ‘quality costing’ (2.84 in 2005 vs. 3.11 in 2000). But 5 practices achieved lower merit scores in 2005 compared to their 2000 results. In 2000, the merit scores of all 7 SMA practices are noticeably higher than their usage scores. In 2005, 6 SMA practices achieved higher merit scores than their current usage scores, but most of them only marginally higher. One exceptional case is ‘strategic pricing’ whose merit score is marginally lower than its usage score (4.97 vs. 5.00).

5.5.2. Competitor Accounting

Table 5-2 below presents analysis concerned with four competitor accounting practices. One new practice – ‘Benchmarking’ is added to the original list of the

three competitor accounting practices in Guilding et al (2000), including ‘competitor cost assessment’, ‘competitive position monitoring’, and ‘competitor performance appraisal’. As ‘Benchmarking’ is often referred to as the comparison of the organization’s internal processes to an ideal standard which is set based on the leading competitors’ performance, ‘Benchmarking’ is interpreted as a strong competitor-orientated practice and therefore put into this group.

Table 5-2 Competitor Accounting Usage and Perceived Merit Mean Scores

	Usage 2000	Usage <u>2005</u>	Merit 2000	Merit 2005
Competitive position monitoring	5.20	4.75	5.85	5.12
Competitor performance appraisal based on published financial statements	4.78	5.06	5.72	5.29
Competitor cost assessment	4.37	3.75	5.49	4.71
Benchmarking	<i>n/a</i>	4.97	<i>n/a</i>	5.19
<i>n</i>	54	28	54	28

All items scored on a Likert scale where “1” denotes used “not at all”, and “7” denotes used “to a great extent”.

Source of 2000 data: Guilding et al (2000) an international comparison of strategic management accounting practices.

From this table, it is apparent that competitor accounting appears to be more developed than the strategic costing and pricing practices displayed in Table 5-1. In 2000, all three practices had achieved average scores well above the mid-point on the “not at all / to a great extent” measure. In 2005, all these three measures remained above mid-point, though only ‘competitor performance appraisal’ achieved slightly higher score than its 2000 counterpart. Newly added ‘Benchmarking’ achieves 4.97 on usage.

When merit scores are considered, it is again found that the perceived merit scores for all three practices are significantly higher than their usage rates in 2000 and all four practices higher than their usage rates in 2005. But when only the merit scores are compared, we can see the merit scores on all three competitor accounting practices have fallen from their 2000 scores.

5.5.3 Customer Accounting

Table 5-3 presents data concerned with customer-oriented SMA practices. In recent years, calls have been made for accountants to produce customer-related information to aid decision-making. Studies suggest that management accounting techniques should be reinforced by linking customers with the organizational activities (Mouritsen, 1997), and management accounting operations needs take a progressive leap beyond monetary measurement by taking ‘customer –focused’ measures as a part of the modernized management accounting apparatus (Vaivio, 1999, p. 690). In this study, three customer-related SMA practices have been added in the 2005 survey, namely ‘Customer profitability analysis’, ‘Life time customer profitability analysis’ and ‘Valuation of customers or customer groups as assets’. Below is the table for the customer accounting techniques.

Table 5-3 Customer Accounting Usage and Merit Mean Score

	Usage Score 2005	Merit Score 2005
Customer Profitability analysis	4.35	5.08
Life time Customer Profitability analysis	2.92	4.21
Valuation of customers as assets	2.67	3.29
<i>n</i>	32	32

All items scored on a Likert scale where “1” denotes used “not at all”, and “7” denotes used “to a great extent”.

Among the three practices, ‘Customer Profitability Analysis’ achieved the highest usage rate (4.35) and merit score (5.08), followed by ‘Life time Customer Profitability analysis’ and ‘Valuation of customers as assets’. In line with the experience of other SMA practices, all three customer accounting SMA practices show higher merit scores than their usage scores.

5.5.4 Other SMA practices

Apart from the three groups of SMA practices listed above, two more SMA practices are tested in the 2005 survey. They are ‘Brand valuation’ and ‘Integrated performance measurement’. As defined earlier, these two practices tend to have a broad scope, which take into consideration of market, customer and internal operations, and are therefore incongruous to the three groups above. They are therefore listed here as separate items. They are not tested in terms of correlation with ‘strategy’ and ‘the participation of management

accountants'. Table 5-4 below shows the usage and merit scores of the two practices.

Table 5-4 Usage and Perceived Merit Score Means of Brand Valuation and Integrated Performance Measurement

	Usage 2000	Usage 2005	Merit 2000	Merit 2005
Brand Valuation	2.50	2.77	3.21	3.29
Integrated performance measurement		4.56		4.94
<i>n</i>	52	32	52	32

All items scored on a Likert scale where “1” denotes used “not at all”, and “7” denotes used “to a great extent”.

Source of 2000 data: Guilding et al (2000) an international comparison of strategic management accounting practices.

'Brand Valuation' is regarded as an important measure of marketing achievements in strongly branded companies (Guilding and Pike, 1994). Other companies may indicate low usage scores as their operations embrace little brand value appreciation. Guilding et al (2000) suggest that this may explain the relatively low scores reported in brand valuation. The result of 2005 survey repeats this pattern with both usage and merit scores only marginally higher. 'Integrated performance measurement' refers to a typical measurement system which focuses on acquiring performance knowledge based on market requirements and normally encompasses non-financial measures. Examples include Balanced Scorecard and 'Tableau De Bord'. In the 2005 survey, both the usage and merit of 'Integrated performance Measurement' scored well above mid-point on the 1 - 7 measurement scale (4.56 and 4.94 respectively).

5.5.5. Familiarity of practicing accountants with the term SMA

Table 5-5 below captures the familiarity of practicing accountants with the term “strategic management accounting”. This aspect is appraised by two questions that were used in 2000 survey. The first explores the respondent’s appreciation of the term ‘SMA’ prior to completing the survey questionnaire and the second measures the extent to which the term ‘SMA’ is used in the respondent’s organization.

Table 5-5 Familiarity with term ‘Strategic Management Accounting’ mean scores

	2000	2005
Appreciation of what “SMA” means 1	3.70	3.50
Term “SMA” used in organization 2	1.79	2.06
<i>N</i>	56	32

1: Scored on a Likert scale where “1” denotes “zero” appreciation, and “7” denotes “very high” appreciation.

2: Scored on a Likert scale where “1” denotes “never used” and “7” denotes “used frequently”.

Source of 2000 data: Guilding et al (2000) an international comparison of strategic management accounting practices.

It appears that the term “SMA” has only limited use in organizations (mean scores of “1.79” and “2.06” on the 1 - 7 measurement scale from 2000 and 2005 respectively). The appreciation of the term was better acknowledged by practitioners in 2000 (mean scores of 3.70 and 3.50 from 2000 and 2005 respectively).

5.5.6 Correlation between SMA practices and Strategy Archetypes

The survey results reveal that 63% (20 out of 32) of the companies acknowledge their strategic orientation can be described as 'prospector', which implies that companies respond rapidly to external environments. Only 9% (3 out of 32) of the companies believe they are pursuing the 'defender' strategy, which implies stable market conditions and companies place more focus on the efficiency of their internal operations. The rest 28% (9 out of 32) of the companies position themselves in between these two strategy archetypes.

Several SMA researchers have pointed out that research should pay more attention to whether organizations pursuing different strategies would rely on different SMA techniques (Chenhall and Langfield-Smith, 1998b; Ittner and Larcker, 2003). To test how the adoption of different SMA practices corresponds to different strategic archetypes, a correlation test between SMA practices and Strategy Archetypes is conducted using Spearman Correlation, as shown below in table 5-6. The correlation can help detect whether there is any significant relationship between the different strategy perspectives and different categories of SMA practices. Four groups of SMA practices are used, they are (1) the whole group of 16 SMA practices in 2005 survey, (2) the strategic costing and pricing, (3) the competitor accounting, (4) the customer accounting. The sum of the scores of the SMA practices in each group is used as a rough indication of the degree of SMA employment in each case.

Table 5-6 Correlation between SMA practices and Strategy Archetypes

		Strategy
All 16 SMA practices	0.34639 p=0.0608	Statistically Significant at 10% level
Strategic costing and pricing	0.49866 p=0.0043	Statistically Significant at 1% level
Competitor Accounting	0.32162 p=0.0727	Statistically Significant at 10% level
Customer Accounting	0.10568 p=0.5649	Not Statistically Significant

Based on the above table, it is observed that as a whole, the total 16 SMA practices in 2005 show positive relation to the strategic archetypes (Spearman rank order correlation $p<0.1$). Two groups of SMA practices, namely competitor accounting and strategic pricing and costing, are also positively related to the strategy archetypes ($p< 0.1$ and $p< 0.01$ respectively). This can be interpreted as the more organizations adopt a proactive competitive strategy (Prospector) and respond swiftly to new changes in markets and competition, the more they emphasize on the use of certain SMA practices, especially competitor accounting practices and strategic pricing and costing practices. The only exception is customer accounting practices, in which case, the survey shows no significant relation between the adoption of customer accounting practices with either ‘defender’ or ‘prospector’-orientated strategies.

5.5.7 Correlation between SMA practices and the participation of accountants

Table 5-7 shows how SMA practices correspond to the different degrees of participation of management accountants in the strategic management process.

Correlation between SMA practices and the participation of management accountants are tested using Spearman Correlation. Recent literature calls for management accountants to change their positioning to become ‘ internal consultants’ or ‘ business partners’ (Siegel, Sorensen et al. 2003; Burns and Baldvinsdottir 2005). To realise this kind of role change, management accountants need to switch their orientation towards greater use of SMA practices. Therefore, the research is expected to reveal a positive correlation between the involvement of management accountants in strategic issues and the employment of innovative SMA practices. The same categorization of SMA practices as used in table 5-6 is applied here. Concerning the strategic involvement of management accountants, the sum of the scores of the different aspects of accountant participation serves as a rough indication of the specific organization’s degree of management accountants’ participation in strategic management processes.

Table 5-7 Correlation between SMA practices and the participation of management accountants

	The Participation of Management accountants	
All 16 SMA practices in 2005	0.06494 p=0.7332	Not Statistically Significant
Strategic costing and pricing	0.16488 p=0.3754	Not Statistically Significant
Competitor Accounting	0.37891 p=0.0325	Statistically Significant at 5% level
Customer Accounting	-0.13617 p=0.4574	Not Statistically Significant

Based on the above table, it is observed that only one group of SMA practices, the competitor accounting, are positively related to participation of management

accountants in strategic management processes (Spearman rank order correlation, $p < 0.05$). The other 4 groups have been found not significantly associated with the participation of management accountants.

5.5.8 Correlation between participation of accountants and Strategy

Archetypes

Table 5-8 examines whether the participation of management accountants is related to the different strategy archetypes of the organizations. Correlation between the participation of management accountants and the strategy archetypes is tested using Spearman Correlation. Empirical evidence and theorization of the new roles played by management accountants in the strategic management process is relatively scarce. But several past studies indicate that market complexity, organizational strategic re-design, new managerial philosophies, and management technique innovations are all possible drivers of an increased strategic role played by management accountants (cf. Friedman and Lyne, 1997; Granlund and Lukka, 1998, Burns and Baldvinsdottir, 2005). Therefore, the researcher is expecting an increased involvement of management accountants in strategic issues in a more market-facing organization that confronts a rapidly changing competitive environment. In table 5-8, the sum of the scores of the different aspects of accountant participation serves as an indication of the organization's degree of management accountants' participation in strategic management processes.

Table 5-8 Correlation between strategy and the participation of management accountants

The Participation of Management accountants	
Strategy	0.47548 p=0.0060 Statistically Significant at 1% level

There is a significant correlation between the strategy and the participation of management accountants in strategic management processes (Spearman rank order correlation, $p<0.01$).

5.5.9 Correlation between the different groups of SMA practices

The researcher is also able to test whether there is any relationship existing between different groups of SMA practices, namely, strategic pricing and costing, competitor accounting and customer accounting. Table 5-9 below outlines the test results.

Table 5-9 Correlation between different groups of SMA practices

	Strategic costing and pricing	Competitor Accounting	Customer Accounting
Strategic costing and pricing		0.42250 p=0.0179 Statistically Significant at 5% level	0.34511 p=0.0572 Statistically Significant at 10% level
Competitor Accounting			0.28681 p=0.1115 Not Statistically Significant
Customer Accounting			

Based on the above table, the researcher finds two significant correlations exist between the strategic pricing and costing and the competitor accounting, and the strategic pricing and costing and the customer accounting (Spearman rank order correlation $p < 0.05$ and $p < 0.1$ respectively). A possible explanation of this finding is that costing and pricing operations need to be informed by customer and competitor information, such as market share, competitors' costs and prices, customer price elasticity, etc. Customer and competitor accounting techniques therefore can provide valuable information to guide costing and pricing decisions. Customer accounting and competitor accounting have not been found significantly associated. This may be because these two groups have distinctive focus and clear functional boundaries; they are therefore less related in practice.

5.6 Conclusions

Several main findings are distilled from this survey with comparisons made to the survey results of Guilding et al (2000).

Firstly, the SMA practices continue in a trend of experiencing widely ranging degrees of application, with highest score achieved by 'competitor position monitoring' and lowest achieved by 'Attribute Costing'. Among the 16 SMA practices, 10 score above mid-point of the "not at all / to a great extent" used measure and 6 below the mid-point. Three competitor accounting practices and strategic pricing are the most popular SMA practices. In addition, three new practices added in 2005 survey, namely 'customer profitability analysis', 'benchmarking' and 'integrated performance measurement' also appear to be

among the most popular SMA practices, as all three practices score well above the mid-point of the “not at all / to a great extent” measure (Benchmarking 4.97, Integrated performance measurement 4.56, and Customer profitability analysis 4.55).

Secondly, for most of the techniques in this survey, the perceived merit scores are noticeably higher than their corresponding usage rates. The only exception is ‘strategic pricing’, whose perceived potential is marginally lower than the usage score (Usage score 5.00 and merit score 4.97). This result has to a large degree confirmed the finding of Guilding et al (2000) survey. This result again suggests there is still scope for further employment of SMA practices and it would be inappropriate to dismiss their future potential.

Thirdly, it has been found that the use of the term “strategic management accounting” in organisations and the appreciation of the term amongst practicing accountants is limited. When asked to what extent the term SMA is used by the participant companies, the average score is 2.06 on the 1-7 ‘not at all/frequently’ scale. When the participating management accountants are asked whether they considered that they had a strong appreciation of what is meant by SMA, the average score is 3.50 on the 1 – 7 ‘very little/very high’ scale, a score very similar to that found in 2000. Therefore, although many SMA techniques are appraised by both academics and practitioners as important in terms of usage and potential, the term itself has only been used by the practitioners to a very limited degree. This is possibly due to the fact that SMA still does not have

a clearly defined framework and is subject to many different interpretations of different researchers (Roslender and Hart, 2003).

The fourth main finding relates to the new explanatory variables incorporated in the 2005 survey, i.e. the strategy archetypes and the participation of accountants. Respondents were asked to what extent they were involved in a series of aspects of their organizations' strategic management process, including identifying problems and proposing objectives, generating opinions, evaluating opinions, developing details about opinions, and taking the necessary actions to put strategic changes into place. The means scores of all these aspects are notably high, all well above mid-point. This discovery offers support to numerous recent commentaries that highlighted emergent business-oriented roles for management accountants. It suggests that management accounting increasingly encompasses a strategy-orientation that stretches considerably beyond routine and technical accounting (Granlund and Lukka, 1998; Scapens, et al, 2003; Burns and Baldvinsdottir, 2005).

Several correlation tests have been conducted among the variables. 7 significant correlations were found. As shown in table 5-6, several groups of SMA practices show significant correlation to the strategic archetypes. These include the whole set of 16 practices from 2005, the strategic costing and pricing practices, and the competitor accounting practices. The only exception is customer accounting. These 3 significant correlations discovered here offer support to many researchers' suggestion that more market-facing and competition-concerned organizations tend to adopt more SMA techniques

(Chenhall and Langfield-Smith, 1998b). In addition, the survey also suggests that, in supporting a market-driven strategy, strategic costing and competition-related practices are emphasized. Table 5-7 examines whether there is any correlation between the adoption of SMA practices and the strategic involvement of management accountants. One significant correlation is found between competitor accounting and the participation of management accountants. This seems to suggest that the involvement of management accountants in the strategy process has its distinctive focus on competition. This also supports the high usage scores of the competitor accounting practices. Competitor-related accounting activities, such as position monitoring, cost assessment, and competitor's performance appraisal have become an important part of management accounting operations. Table 5-8 reveals that another significant correlation exists between the strategy archetypes and the participation of management accountants. This can possibly be interpreted as the more rapidly the organizations respond to the market needs and opportunities, the more their management accountants tend to be involved in decision-making processes. This finding contrasts to the traditionally-held view that management accountants are reluctant to change. Instead, it suggests the management accountants are actively involved in the strategic management process. This reinforces the results of Bhimani and Keshtvarz(1999)'s, which show close involvement of management accountants in strategic planning activities, especially in terms of providing data or analysis to aid different elements of strategic planning.

Finally, the correlation between different groups of SMA practices is examined. It has been found that significant correlations exist between both strategic costing and competitor costing, and strategic costing and customer accounting. But no significant correlation is found between competitor accounting and customer accounting. This result implies that certain SMA practices with different functionality often coexist in organizations. For instance, information gathered using competitor accounting and customers accounting practices is utilised to further inform costing and pricing operations.

The study's findings should be interpreted in light of several limitations. First to be recognized is the nature of the questionnaire survey as a pilot study. The sample size is relatively small and it is only conducted in UK. Therefore, the survey results are not expected to be 'applicable' to explain the SMA practices in other countries. Also, because the sample is a selection of large UK organizations, the adoption and implementation of SMA practices can be potentially different in small-to-medium business.

A problem confronted in this study relates to the scope of practices being considered, i.e., what management accounting practices comprise strategic management accounting? The criteria adopted in this study are the extent to which the practices exhibit strategic orientation. The following qualities have been taken as indicative of a strategic-orientation: external or environmental orientation, competitor focus, customer concern, and long-term, future orientation. The SMA practices considered in this survey were drawn mainly from the academic literature. The constructs were operationalised using,

wherever possible, terminology and definitions that have been applied in the academic literature. While this supports their credibility as accounting practices worthy of consideration, it does not exclude the possibility that these practices or similar ones may be termed differently in different organizations. Standardization of terminology used in connection with SMA practices employed has proved to be difficult (Goulding et al, 2000). This problem has been highlighted by the minimal extent to which the term "strategic management accounting" is used in companies. Given the limited literature of SMA research, it is impractical to expect acknowledgment of every documented strategically-orientated management accounting practice. It is nevertheless believed that most substantive contributions to the literature have been recognized.

As noted at the outset of the chapter, considerable interest has been shown recently in strategic applications of management accounting. Despite this development, it has been difficult to conceive of a conceptual framework underlying strategic management accounting. In 1981 Simmonds stated that strategic management accounting has no literature of its own. Tomkins and Carr (1996) argue that SMA has been ill-defined and lacked a theoretical framework of its own. Roslender and Hart (2003) believe after more than 2 decades, the situation has not been much improved. These authors highlight the need to appreciate the study of SMA to be of an exploratory nature. Due to the limitations of any survey method, many questions raised in this study can not be addressed to a satisfactory degree by a survey alone. For example, what are the causes of low adoption rates of certain practices? There is

significant correlation found between Strategy and the participation of management accountants in strategic processes, but how do management accountants become involved? There are also correlations found between strategy and certain SMA practices, we need to question how these practices contribute to the strategic success of the organization. It is believed that the issues posed above should motivate the SMA researchers to pursue more empirically significant studies. To obtain such insights would require a more robust methodology which would provide in-depth explanations of individual company's experiences. Further study of SMA therefore calls for case studies to overcome the limitations that a survey methodology may generally contain. The use of case studies is believed to be able to expand our understanding of the empirical observations by developing theories that explain individual observations in their specific context (Ryan, et al, 2003).

CHAPTER 6 CASE STUDY OF ULE FOOD - DESCRIPTION

Table 6-1 Interviewees of ULE⁷

Interviewees	Code	Number of interview conducted
Vice President of Finance Academy	VP	1
BP change program leader	PL	3
Food Division Operation Manager	OM	1
Accounting Partner 1	AP1	2
Accounting Partner 2	AP2	2
Marketing Manager	MM	1
Customer Account Manager 1	CAM1	1
Customer Account Manager 2	CAM2	1
Total		12

6.1 Introduction

The first case study is about ULE food, one of the largest fast moving consumer goods (FMCG) companies in the world. In recent years, to cooperate with the organization-wide restructuring program (Path to Growth), the finance academy⁸ of ULE food centrally rolled out a series of new accounting operations, which exhibited strong SMA characteristics and had their major focus on brand development and customer management. This chapter provides a detailed account of these innovative practices and the process of their adoption in ULE. This chapter is divided into 9 sections. Section 6.2 offers brief background about ULE food. Section 6.3 and 6.4 focuses on the structure of finance operations in ULE today, with SMA practices taking a significant part. Sections 6.5-6.8 offers detailed description of the process of how SMA practices are rolled out to different business areas. Section 6.9 provides a summary of the case findings.

⁷ The coding of the interviewees from both case companies is used throughout this thesis.

⁸ Finance Academy is centrally located in the headquarters and its main function is to develop and promote innovative financial operations to assist the units in their pursuit of efficiency and the whole organization's strategic excellence.

6.2 Organizational Background

ULE FOOD has more than 100 multi-million-dollar brands, ranging from tea, coffee, to yogurt and icecream products. Some years ago, ULE food started to face a period of sluggish growth, shrinking market shares and its performance lagged behind that of its rivals, such as Nestle, Diageo, and P&G in many areas.

"ULE's main problems are too little and misdirected advertising; unrealistic performance targets; some unattractive products; and a lack of innovation."

– Economists, 2000

Responding to this challenge, the company announced a billion-dollar five-year growth strategy, aimed at bringing about significant improvements to its performance, especially around the areas of its brand portfolio and its market positioning. The initiative was named as 'Path to Growth' Strategy (PTG).

"The Path to Growth strategy is all about how we can reshape ourselves for faster growth and expanded margins."

-Chairman of ULE Group

This exercise involved comprehensive restructuring of operations and businesses, cutting down on its vast portfolio of products and focusing efforts on enhancing performance of the top brands. One significant change brought forward by the PTG was that a new set of long-term and flexible targets took the place of the traditional fixed annual targets.

Examples of these flexible targets included

1. Targeted sales growth in the range of 5% to 6% per annum,
2. Operating margins in the high double digits,
3. Staying within the top third of peer-group measured on total shareholder return, etc.

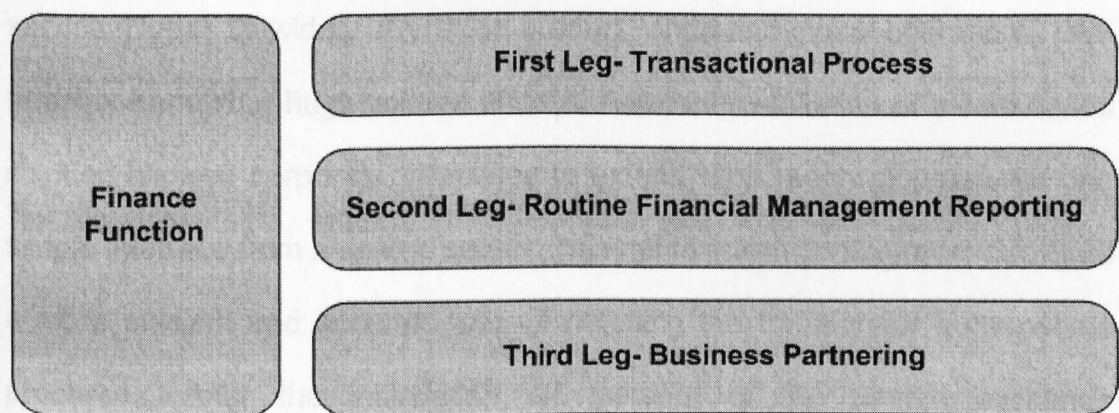
These changes in targets conveyed a strong message to the general management of ULE that the performance of the business were no longer judged by the traditional financial budget approach, which mainly implied delivering a specific set of numbers within a short defined period of time. Instead, the priority of the business was to respond quickly to competitors' actions and attempt to overtake the competition over the medium to long term.

PTG called for participation of all functions to explore the potential of future improvements. All the functions were challenged as to how they could contribute to the growth agenda. The finance academy, as the research centre focusing on improving the efficiency of the finance function, was instrumental in the promotion of this change effort.

'Anything which can contribute to investing our scarce resources more wisely in order to get improved growth is instantly our top priority'. -VP

The finance function was expected to formulate a clear vision of how finance could contribute to the PTG. During this process of self-examination, the finance personnel noticed that several aspects of the conventional management accounting operations had '*instinctive disconnect*' (VP) with the new requirements of PTG. To address this, a Finance of Future (FOF) project was launched in 2002. In the FOF project, the finance function set out to restructure its operations and bring into ULE ideas relevant to the future improvement of the company from a finance perspective. As articulated by the Vice-President of the finance academy, the restructuring of finance around FOF can be best described as a 'three-legged' initiative, categorizing finance operations into three distinctive clusters of activities.

Figure 6-1 Three- Legged Finance Operations



6.3 Three Legs of Finance operations

The first leg covered the scope of the traditional 'corporate finance' function, including most of the specialist tasks such as, the treasury, foreign exchange, tax operations, etc. In this area, specific financial expertise was required to

fulfill these tasks. In FOF, the improvement initiative on this aspect was known as 'World-Class Finance Process', which had its main focus on enhancing the efficiency on processing routine financial transactions. Accordingly, the financial expertise was reorganized into centrally located and downsized teams concentrating on key corporate finance areas in several regional headquarters around the globe. In this part of the initiative, the interaction of finance with the operational units was typically indirect rather than direct.

As an alternative to the use of the regional headquarters for transaction processing, outsourcing of corporate finance processes was another major move in the development of 'World Class Finance Process'. AP1 explained that the outsourcing could not only reduce costs and attain faster responses, but also free up the finance team to focus on other aspects where they could make a more valuable contribution. One case in point was the treasury service. Due to its widely diversified product range and global operations, ULE treasury handled a huge volume of data. A recent installation of a web-based solution allowed corporate treasuries to extend their reach globally with one simple interface from a central server. This new system configuration provided a more efficient and accurate way of handling the traditionally burdensome processes. After the installation, 95 percent of the foreign exchange transactions were accomplished automatically without any assistance from the treasury staff. Only the largest 5% transactions with affiliate companies' still required manual acceptance by dealers.

'We are delighted with the ease and convenience the new technology offers. The solutions further increases our productivity, eliminates manual processing and improves cost efficiencies.'-OM

The second leg of FOF's change effort was in the routine internal 'accounting reporting' domain.

'this is the part that you crank the machines every month, essentially anything you can make a routine from, rule-based, process-based, or template –based.'-VP

The changing focus of FOF in this area was to relieve the operational units of the production of routine management information. Instead, these routines were outsourced either to external information providers or internal central information offices. Three central information offices were set up in charge of routine regional reporting tasks from America, Europe and Asia/Africa.

'So anything we can standardize, we are trying to drag them into the regional information offices. I could imagine that we could end up with the trial balance, or the monthly management information of the old styles, being produced in a consolidated fashion in some place or another'-PL

The third leg was Business Partnering (BP) program. BP was defined by the finance function as *'leading edge, integrated practices for finance business*

partners, applied consistently throughout ULE in multi-functional teams to deliver growth and value' (BP userbook). Therefore, the focus on this aspect was to engage the finance team with different functional areas to undertake decision support and performance management. This area was seen as where finance could add the greatest value in providing and interpreting data that the business needed to drive performance. A series of SMA Innovations were undertaken in this field. So far, the business partnering program and subsequently adopted SMA practices have been focused mainly in two areas: Brand Investment and Customer development.

Marketing and customer-related costs represented a significantly large proportion of the costs incurred in the FMCG sector. ULE was no exception. In recent years, many ULE brands were in slow decline and the market shares were being eaten away gradually by other big rivals. Customer development investment⁹ represented another major expenditure, which was even greater than the investments on TV and radio advertisements. However, investments on customer-related activities traditionally lacked rigorous scrutiny.

'ULE is a marketing-led business, by far our biggest expenditure beside raw materials is advertising and promotion, so it's all about how we spend money wisely behind brands, but Brand investments and Customer development had long been regarded as problematic areas in ULE.' – MM

⁹ Which includes expenses incurred on in-store promotion activities and other customer-care activities

Therefore, the drive to hold marketing and customer managers more accountable for the investments for which they were responsible was a common consensus behind the BP. BP was introduced largely as an effort to input more systematic analysis to enhance the accountability of these functions and inform decision-making. The PL believed, the direction of 'new age' finance was to embrace more value added analysis.

'Most people said the amount of money we spend (on Ads and promotions) we should be pretty critical of, you know, even the marketers think so, they just do not know how to judge, it is not like they do not want to, it is just difficult....All the stuff we do is trying to bring in a more solid, consolidated planning and control process. And I always think finance can choose to be involved in nothing or everything, because everything we do has a financial impact. To win in the marketplace, we need to make sure that we are maximizing the return on our brand and customer development investment. Finance needs to raise its game in providing decision support that is more growth oriented, externally based and cross-functionally informed.' – PL

In addition, the PL also pointed out, the success of business partnering (BP) depended on the efficiency of the first two legs of the 'corporate finance' and 'routine management information'. These were the 'backbone' of finance operations which provided finance with credibility and influence. This case evidence provides support to the argument put forward by Friedman and

Lyne(1997) that if the record-keeping and control roles were to be provided by other groups within the company, then the role and importance of management accountants would be much reduced. What's more, the concentration of management accountants on BP can only be available if the first two legs can be dealt with efficiently and separately.

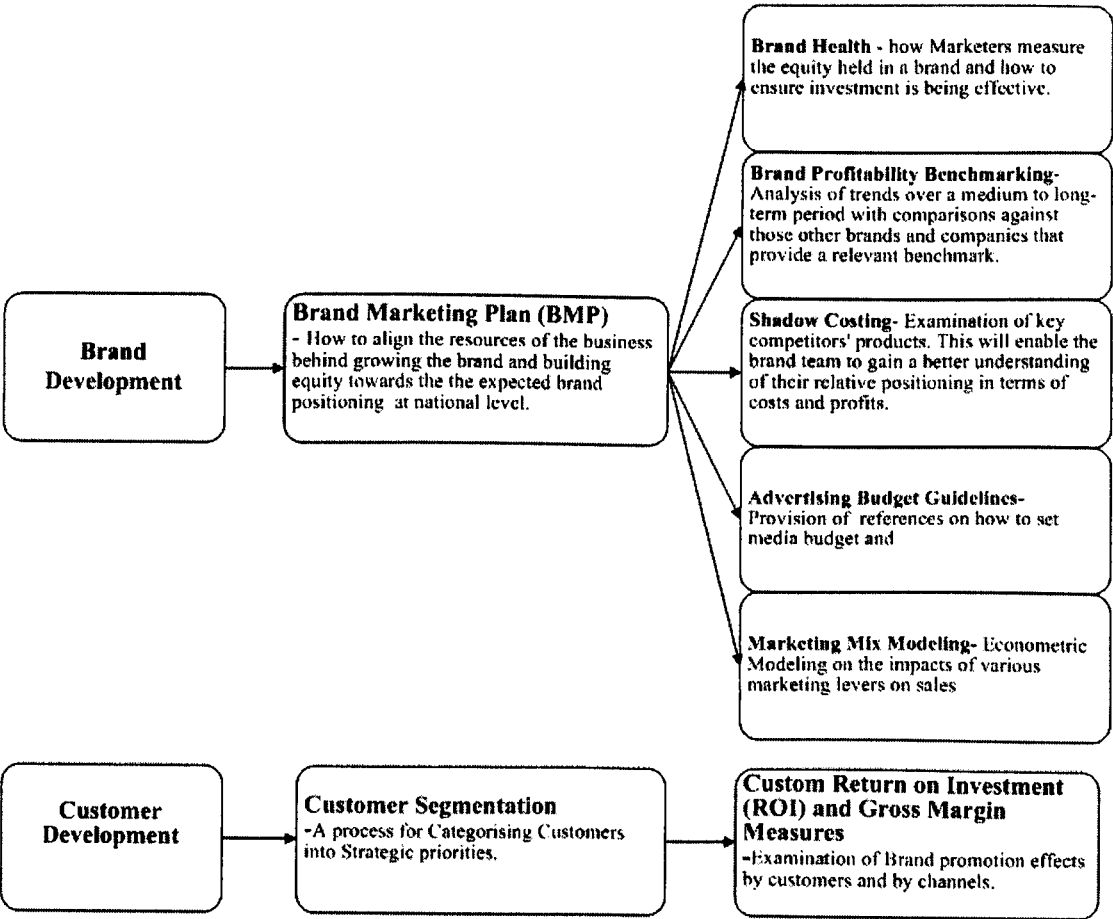
'I guess the key element of it (BP), in terms of making the change happen, is that only by splitting the things, giving those (the reporting) to people who have nothing to do, but to do those properly, can we then get the concentration of the management accountants on the business partnering, that is the decision support and the performance management.' – VP

6.4 The SMA practices

The VP of the finance academy noted that one area that needed improvement was how to strengthen the communication between the finance function and other functions through the operations of business partnering. There was a need to develop a toolkit of techniques to interface between accounting business partners and other functions. To inject effective financial support into the other functions, such as marketing, customer management, etc, appropriately designed tools were necessary to inform the users regarding the impacts of the decisions they are making, of a financial and non-financial nature. Consequently, a series of innovative practices were rolled out by the

central finance academy to fit the needs of brand and customer development activities. The brand development efforts had been mainly around a practice named 'brand marketing plan' (BMP), which included many SMA techniques to inform marketing decisions in several respects. The customer development improvement had been around a new activity of 'customer segmentation'. A table below is used to demonstrate the hierarchy of different practices in employment. Detailed knowledge of these practices is articulated in the subsequent section.

Figure 6-2 SMA techniques in practice



Even though the development of these practices was largely driven by the finance function, the concepts of most of them were already in existence in the organization. In the past, they were either overlooked, or insufficiently emphasized. This resulted in a situation that those potentially very valuable concepts were poorly focused, and their implication to the business was vague and unclear.

'Many tools, like profitability benchmarks and Brand ROI, were already in place in the marketing community, but not properly embedded , because marketing people do not like numbers, and they are not capable of interpreting those numbers from a financial perspective.'-AP1

6.5 A case in point- UK division

In this case study, the UK division serves as the main research site to demonstrate how BP practices have been operationalised. The initial insight that this site gave was that it had over a period of years successfully developed the business partnering program.

The complexity and large scale of operations made the UK division an ideal research site. Throughout the case, whilst experience of the UK Division will be reported, it should be noted that what happened in the UK Division was also indicative of the practices throughout the group. Occasional extracts of interviews at the group level (e.g. With Vice President of Finance Academy)

will also be incorporated.

Below is the description of how the BP practices had been rolled out in the UK Division, detailed accounts of the evolution process of the partnering program in both marketing and customer management functions are offered respectively.

6.6 Brand Development

As the UK Division was in fierce competition for profit and market share, the capability of conducting successful brand marketing activities was critical. Marketing costs represented a significantly large proportion of the investments in the UK Division, far outweighing tangible asset expenditures in recent years. However, the parent company was not happy with the performance of the brands as they constantly underperformed compared to the growth targets set by Path to Growth (PTG) strategy. This situation exposed a fundamental need to understand both the efficiency and effectiveness of the conduct of the brand investments. In this context, BP was regarded by the top management as the vehicle to enhance the accountability of marketing activities. A range of SMA practices which embraced marketing-relevant performance metrics were developed commensurate with wider business objectives. This was intended to direct marketing efforts to contribute to the overall performance of the business. The involvement of accountant partners in brand marketing operations helped to provide rigourous, analytical insights that

'help quantify and prioritize the cost and value of alternative options, ensure that resource allocation decisions are in line with desired business outcomes and offer the best possible return on investment.' -PL

The rolling-out of SMA practices into the marketing function was a relatively smooth process. The reason for this can be found from two aspects. Firstly, there was a long history of cooperation between the finance and marketing. A decade ago, there was no finance function in individual operational units. A 'commercial manager' role fulfilled most of the conventional financial duties, as well as supply chain, logistics and procurement. This previous structure made communication between marketing and finance a 'necessity' and helped build mutual understanding and cooperation.

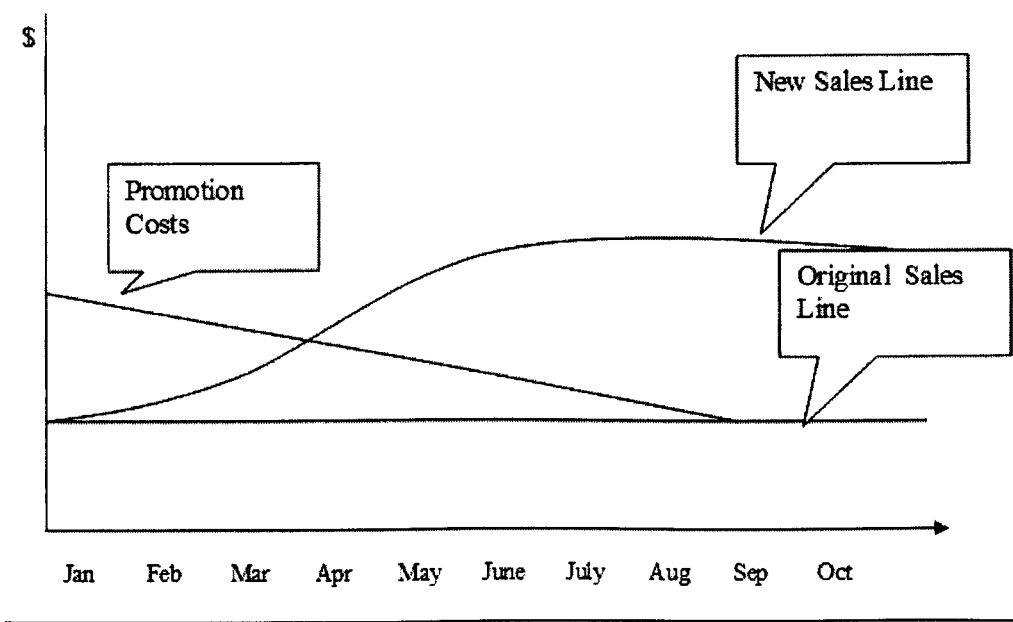
'We had a position where people used to think of a commercial function as being people you had to talk to before you did anything'-VP

Secondly, the marketing department was conventionally organized as a 'profit centre'- a division which was held responsible for producing its own profits. The marketing profits were defined as the promotion effects of advertisements on sales and identified by the difference between uplifted new sales line after ad promotion and the original sales line¹⁰. Therefore, ULE had

¹⁰ The concept of 'marketing profit' adopted by ULE is different from the conventional 'profit' definition used by accounting textbooks. But the organizational practitioners believe this 'marketing profit' offers a good indication of the effectiveness of the marketing promotions on sales enhancement, and therefore, this term has been widely accepted in ULE.

long recognized the nature of marketing investment as a long-term investment, even though many organizations conventionally treated marketing costs as one-off expenses. Because of this, the marketing work tended to be 'analytical', - how to achieve the best return on the investments in launching new products or new advertising campaigns. Therefore, most of the marketers held a positive attitude towards having financial inputs as part of their analysis.

Figure 6-3 Demonstration of Marketing Profit



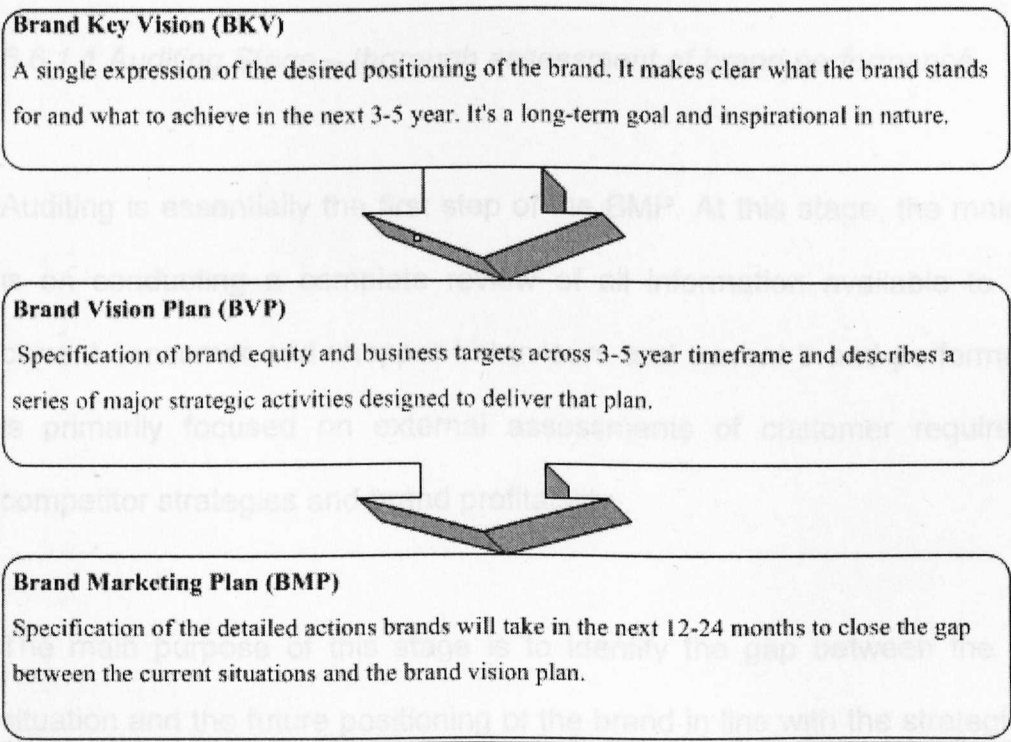
The Launch of business partnering was regarded as a necessary effort for finance to help strengthen the brand marketing efforts of the division. With the roll-out of a series of innovative practices, the cooperation between marketing and finance became a more and more formalized process. New

improvements were found mainly from two aspects: better management of marketing processes and better informed marketing decisions.

6.6.1 Structured marketing planning- BMP

From the ULE marketing department’s perspective, brand development efforts followed a three-step, top-down procedure, as shown in the Figure below¹¹.

Figure 6-4 Three –Stepped Marketing Planning



Source: Organizational BMP Userbook

¹¹ This three-step procedure is largely driven by the marketing function. As BKV and BVP are inspirational in nature, and they represent the future targets for the brand development efforts to strive for. Then all the relevant functions are motivated to achieve these ambitions by carrying out detailed action planning exercises in BMP. The involvement of accounting partner has been mainly focusing on fulfilling BMP.

Brand development efforts had become a more organized and standardized process with the implementation of Brand Marketing Plan (BMP), which included three major procedures, namely, auditing, execution, and tracking. Accountant partners followed the whole process through as it developed. Indeed, accountant partners were in charge of the overall planning and coordination. As the AP2 put it,

'BMP is a marketing-driven initiative, but I'm the one who puts up the timetable and these are the dates you have got to do it by.'

6.6.1.1 Auditing Stage – thorough assessment of brand performance

Auditing is essentially the first step of the BMP. At this stage, the main focus is on conducting a complete review of all information available to assess current consumer and shopper behaviours and current brand performance. It is primarily focused on external assessments of customer requirements, competitor strategies and brand profitability.

The main purpose of this stage is to identify the gap between the current situation and the future positioning of the brand in line with the strategic goals and objectives outlined in BVP. At the end of this stage, a short list of threats and opportunities facing the brand would be identified. This would give directions to what should be done to seize market opportunities or take remedial action in the future.

As shown in Figure 6-5 below, the key issues and opportunities identified at this stage were comprehensive. Not only was both the financial and nonfinancial performance of the brands measured in terms of revenues, profitability, market shares, but also in comparison with key rivals. Therefore, the improvement opportunities were recognized from multiple respects, including marketing promotion, innovation, and brand strategy reformulation.

Figure 6-5 Brand Marketing Plan (BMP) for Brand A – Auditing Stage¹²

1. BRAND PLAN

BRAND KEY VISION: To make the finest quality all natural ice cream. Grow to be the nation's favorite.

BRAND MARKETING PLAN BY END OF 2006

Strategy: build selectively

Target Share: Grow volume share from 32 % to 35% by end 2006

Turnover (National Goal): £300 million

Support Budget: Media: £17m; In-Store Promotion: £13m

Target Profitability: Gross Margin 35.5%; Trade Margin: 8%

2. KEY ISSUES & OPPORTUNITIES

a) **Brand A is in decline (-5% value share year on year) owing to loss of penetration.**

-Based on the most recent market intelligence data, consumers are moving to value sector brands which are perceived to offer as good a taste but 'better value for money' (Brand B, priced at 10% less than A , has high scoring on taste on survey). Greatest loss are in A's traditional flavor category. Users have moved to Company II and low-cost own brands. (Traditional flavor penetration dropped versus 2004; Vanilla dropped 5% to 45% in 2005 and Chocolate Fudge Brownie dropped 4% to 20% in 2005)

b) **Brand A promotional strategy, focusing on deep cut pricing is not building business.**

- Over a third of A sales are sold on Deals - the highest in the category. 48% of A buyers' spend is on deal. This makes clear contrast with Company II brands which have reduced the frequency of pricing promotions. But this has not influenced their business negatively.

c) **Company II's national 'food network' event, co-promoted with Carrefour, builds its business**

- In Carrefour stores, II's products were up 18% versus year ago. Overall share over the summer period grew 2%. 2005 campaign with trade and consumer promotions results in 75% redemption for free sampling products. The campaign has further supported II's 'awareness' rating.

d) **Sampling has been proved to build trial and repeat in new flavor category**

-Sampling effectiveness, in all sorts of test market, showed mini-pack trial unit built higher penetration and repeat purchase.

Trial after 6 months in test situation (Allsorts Sampling)

No Sampling	With Sampling
15%	30%

e) **Brand A innovation has not been supported sufficiently over the crucial 2 year trial building period**

-Over the last 4-5 years, innovations have been under-supported, with launch plans only spanning one year after which a new message and variant introduction was launched. In contrast, company II repeated the single-minded 'best taste' message and the national 'food network' event drove strong 'awareness' ratings.

Source: Organizational BMP Case Report

¹² To protect confidential business information, all the company-sensitive information has either been disguised or changed, but the essential structures and business ideas are retained at the researcher's best effort.

6.6.1.2 Execution Stage – Action Plan

As a result of analysis, discussion, and judgment formed in the auditing phase, the second step in BMP was to identify and produce a short list of future 'action plans'.

At this stage, one principle of selecting proper actions concerning certain brands was that there must be measurable objectives, or KPIs (Key performance Indicators), to evaluate the effects from both financial and non-financial perspectives. 'Measurable' in this case was specified as defining the precise effect required, the magnitude of this effect, and the timeframe of the actions. Also, these measures were linked to overall marketing and financial goals. The primary motivation behind the use of KPIs was the notion that only a collection of conceptually sound financial and nonfinancial performance measures can properly align the efforts of an enterprise with its strategic objectives (Kaplan and Norton, 1996). The rationale of adopting non-financial KPIs has been fully argued in academic research (e.g. Ittner and Larcker, 1998, 2001; Ittner, 1997). Smith (2002) states that non-financial measures are valuable in contextualizing profit measures, as they provide another instrument for motivating an appropriate level of shifting efforts from short-term profit-seeking to customer satisfaction, which can enhance future profit. The findings of Said et al (2003) demonstrated that firms that employ a combination of financial and non-financial performance measures achieve higher mean levels of returns on assets and higher levels of market returns than those with only financial measures.

As shown in Figure 6-6 below, with each intended execution plan, there were several KPIs. Non-financial measures with a marketing aspect, such as market penetration and customer loyalty measures, stood alongside traditional financial measures, such as sales growth and volume. Whether the selected KPIs can be representative of the brand performance is a key issue, as there could be several options for one brand, involving different future potentials. Thus, in the selection process, the expertise of accountants in choosing KPIs was regarded as critical.

For each action to be taken, an initial budget estimate was also made. This kind of estimate broadly identified the funds needed to meet the action objectives. This stage was regarded as the beginning of a 'zipping up' process. The agreed action plans should move the brand from the start point defined at the auditing stage to the targets set in the BVP.

Figure 6-6 Brand Marketing Plan (BMP) for Brand A – Action Stage

Actions to take	Measurable Objectives	Key Activities	Budget Allocation
1. Rebuild A as leader in delivering best tasting.	<ul style="list-style-type: none"> - 'Finest Natural' , grow attribute strength from 4% to 9 % above category norm by end of December, 2006 - Retain ' best tasting' score at parity with competitor H (End of December, 2006) - The campaign of ' do us a flavor' achieve leadership, currently 5% behind competitor H 	<ul style="list-style-type: none"> - Launch new flavor category - 'Scoop shop' activation and co-promote with key customer - PR around 'Scoop Shop' 	<ul style="list-style-type: none"> £7.2m 360 degree support £13m DIG 360 degree support
2.Shift promotion focus from price cutting to trial and equity building	<ul style="list-style-type: none"> - Increase promotional effectiveness from 10% to 20% by format - Reduce the sales volume on deals from 30% to 20%, by format - Relative average price achieves parity to competitor H - Establishment of co-promotion with a key customer to launch ' Scoop Shop' campaign 	<ul style="list-style-type: none"> 'Scoop Shop' activation Co-promotion with major retailer Reduced number of pricing promotions (in line with Competitor H) 	<ul style="list-style-type: none"> £2m key customer co-promotion behind ' Scoop Shop' activation
3. Drive minipack and build trial ahead of main brands	<ul style="list-style-type: none"> - Grow Vanilla & Choc Fudge share ahead of brand share growth by 5% by the end of December, 2006. - Increase household penetration from 41% to 45% by end of December, 2006. - Growth Vanilla ' penetration from 44% to 49% by end of December, 2006. - Grow Choc Fudge' penetration from 15% to 20% by end of December, 2006. - Drive increased ' Conviction' on brand pyramid (relative to competitors) - Mini-pack trial from 45% in 2005 to 50% in 2006 average 	<ul style="list-style-type: none"> National Sampling Campaign using mini-pack samples Support TV communication throughout 360 degree support behind ' Scoop Shop' 	<ul style="list-style-type: none"> £2.8m sampling campaign £0.5m in-store support

Source: Organizational BMP Case Report

6.6.1.3 Progress Tracking

After plans were agreed and put into action, the accountant business partners needed to perform tracking to make sure that the 'action plan' was on track.

Tracking was regarded as a critical and value-creating process to help the brand managers

1. Understand the extent to which actual performance is delivering the objectives outlined in BMP.
2. Determine what action should be taken to build on the positive feedback and correct the negative.

Accountant partners were placed in a central role at this stage, as their analytical skills and rigour were needed in fulfilling the duties during this tracking process.

'Finance tends to be that part of the company, which has got the most advanced capabilities in reporting ,in managing data, so we tend to be the owners of any information process.' -VP

The most popularly adopted tracking tool in the UK Division was the ' Quarterly Brand Tracker' (See Figure 6-7 below for details), which provided quarterly outcomes against a broad range of brand health measures, including both market conditions and the evaluation of the competition.

This tracking effort of BMP visibly changed the working culture of the marketing operations. For example, even though many marketing tools were already envisaged before the introduction of BP, they were not produced

regularly and rigourously. Marketers produce these to meet their own ends. As one accounting partner put,

'Before, the marketing team was doing it (the brand loyalty measure), but marketing team would be doing it only when marketing choose to do it. For example, Ohhh, I want to tell you my brand is doing great, or my brand is doing terrible, and I want more money, I'll show you it.' –AP1

Therefore, the functioning of the marketing tools had been somehow manipulated by the marketing team to pass specific messages to the management. These behaviours severely undermined the values of these tools and it did not help the management to get consistent pictures of the brand performance. With Finance stepping in, all the tools were subsequently organized into the monthly or quarterly reports.

'No matter you want to see it or not, they are there' –AP1

Figure 6-7 Brand Marketing Plan (BMP) for Brand A – Tracking Stage

(A) Market Performance

Time Frame	2004	2005	06 Q1	Q2	Q3	Q4	Year to Date
Category- Detergent							
Volume (% change vs YAG)	4.5	6.1	6.3	7.0			6.4
Value (% change vs YAG)	4.4	5.5	6.9	5.6			5.9
Brand – A							
Volume (% change vs YAG)	-2.8	-1.9	4.0	0.7			0.2
Value (% change vs YAG)	-4.2	-4.9	8.0	3.6			4.7
Market Share							
Volume share (%)	35	32	32.2	33			32.6
Value share (%)	33	25	28	30			29
Consumer Behaviour							
Penetration (%)	39	44	45	45			45
Volume per Buyer (KG)	5.1	4.7	1.9	2.3			5.8

(B) Brand Performance

Brand Loyalty							
Conviction %	30	31	28	35			+7.0
Advantage %	46	47	46	48			+2.0
Performance %	59	58	58	56			+5.0
Relevance %	65	63	64	62			-1.0
Presence %	85	86	87	84			-3.0
Promotion							
Spontaneous Awareness %	59	62	60	68			+8.0
Media Spend £m	13	15	4.2	3.9			+5.0
Share of category Media Spend%	20	31	35	35			+12.0
Place							
Delivery on time %	85	90	95	95			95
Share of Promoted Value %	38.5	30	29	24			
Price							
Price £	2.17	2.18	2.05	2.01			-3.0
Relative Price (Brand Index)	110	108	103	101			-5.0
Value for Money %	22	26	32	35			+9.0
Product							
Product Quality %	81	82	85	86			

(C) Financial Performance

category Turnover £M	125	116	32	35			
Brand Turnover	43.8	40.6	12.8	14.4			
Gross Margin %	35	32	33	35			
Trade Margin %	9	8	10	12			

Source: Organizational BMP Case Report

6.6.2 Information support on relevant marketing decisions

There is recognition in the marketing research community (Shaw and Mazur, 1997, Shaw, 1998, 2001) that to inform better marketing decision-making, it is necessary to provide multiple measures of marketing performance. This also

means a move away from 'hard' financial measures such as profit, sales revenues, and cash flow. Greater importance should be placed on non-financial measures including effectiveness of sales performance, customer satisfaction, customer loyalty, brand strength, etc.

Accountant partners recognized this need and showed strong support to the marketing '4P' model. '4P' refers to Promotion, Price, Product, and Place. The marketing management believed that the 4Ps were the levers that could bring the desired changes in consumer behaviour to deliver the targeted level of profit and long-term value. Therefore, this model was central to the whole BMP process and provided a way of identifying future sources of value enhancement. In the auditing stage, with each of these four aspects, a list of questions (See Figure 6-8 below) were asked by the accountant partners to bring to the awareness of the whole team the status of the brand in question. AP2 commented that

'Marketers sometime can be too close to the projects to see the whole picture, or some times they can be too intimidated to ask those general questions.'

Thus, it was regarded by the marketers as necessary to have an accounting partner on board as they did not have the intimacy and could step back and give objective judgments. Vaivio (1999) argued that this '*rational*' analysis conducted by accountants can hold considerable benefits. The rational analysis reinforces formal ways of seeing and reasoning by keeping a

distance from its '*objects*'. (p.695) Hence, by following the lines of formal enquiry, the accounting partners are able to direct organizational attention into a more formalized and standardized framework of decision-making.

Figure 6-8 Marketing 4P Question List

Promotion

What are our advertising and promotional strategies?
What is the logic of the allocation of funds across the different promotion channels?
What has been the historical ROI on each channel?
What are our competitors doing? Has it changed over time?
Does our brand support fit into our key customers' strategies?

Pricing

Pricing probably is the most complex element in the 4Ps as pricing decision is influential to consumers, customers, and competitors.

To Consumer :

What is our pricing strategy?
Do we understand the consumer's value perception and price sensitivity?
If we change price, how will other products in the portfolio be affected?

To Customer:

What impact will a price change have on customer margins in each channel?
Will any change in price be passed on to the consumers?
Where does our product fit in the customer's strategy?

To Competitor:

How do our brands compare on relative perceived price and value to those of our competitors?
What is the likely reaction of competitors to a price change?

Product

What are the product costs and what have been the trends in recent years?
How does this product compare with other products in the portfolio?
How does this product compare with competitor's products?
Do consumers perceive a difference between our product and our competitors?

Place

Place choice concerns the channels and customers from where the products are available for consumers to purchase.

What channels are in use? How does this compare with competitors?
What are the costs and profitability of serving each channel?
What are the trends and changes in channel choices?

Source: Business Partnering Training Userbook-Finance

6.6.2.1 Pricing - Shadow Costing

Shadow costing practice enabled the brand teams to gain a better understanding of their brands' pricing in relation to the competition. While this evaluation would not be 100% accurate, it could be potentially useful in aiding costing and pricing decisions. Many researchers also argue that detailed costing data may not be cost beneficial, as it is time-consuming to collect and analyze (Siegel *et al*, 2003). In many cases, businesses need to respond in a timely manner to external competition and market changes. Therefore in certain situations, cost accuracy is not the utmost priority, instead, reasonable estimates of the costing of your own products and your competitors' products are sufficient to allow the managers to make swift responses to external competition and potentially add more value to their marketing operations.

Shadow costing was an externally focused approach that entailed collecting and analyzing data on costs, prices, and volumes for both a business and its competitors. This information offered indication of the relative positioning of the brand in relation to the competition. A clear shift can be seen in this costing framework compared to internal costing methods of traditional management accounting as less importance was placed on financial accuracy than upon deriving insights that might direct the future efforts on the enhancement of competitiveness (Simmonds, 1981, 1982).

Shadow costing reflected similar thought to the ideas proposed by Bromwich in his early SMA papers concerning 'attribute costing' (Bromwich, 1991,

Bromwich and Bhimani, 1994). In his view, it is the benefits (attributes) that products provide for customers that constitute the ultimate cost drivers. To understand the benefits sought by customers it is therefore necessary to look outside of the business and compare with competitors. Further improvements can be made by focusing on providing these benefits as cost effectively as possible. However, Bromwich's proposal on attribute costing has failed to make a significant impact on practice. A major reason is that to a large extent attribute costing and the associated strategic cost analysis were principally conceptual developments. Apart from some illustrative cases, there was no attempt to show how it might be operationalised. Shadow costing, on the contrary, demonstrated how the concept of 'attribute costing' could be operationalised in practice by using reasonable estimates, which were made by gathering the intelligence information from different functions and utilizing the expertise of accounting to pull together the knowledge that already existed in the organization. As shown in the Figure 6-9, the major cost differences were highlighted and possible reasons deduced. For instance, the pricing differences were largely due to different promotional funding schemes; raw material cost differences were caused by different packing standards; Distribution costs were associated with the logistical contracting. Reliable estimates of these different costs were provided by the experts in the respective areas. Noticeable differences served as a focus of further inquiry and improvement.

Figure 6-9 Demonstration of Shadow Costing

P&L lines	Our Brand A	Competitor's Brand H	Source of Information
Selling Price	100	95 - due to higher promotional funding	Market intelligence should have sufficient awareness of the pricing and trade terms offered by competitors and the level of promotional funding
Raw Material A	15	18 - lower economics of scale	Production function should be able to offer the component information
Raw Material B	9 -Higher specification and higher % used in formulation	6 -Lower specification	Purchase function should provide estimates of the specification and prices competitors obtained
Ingredient X	3	3	Ingredient buyers should be able to inform about the specifications and prices being obtained by competitors
Ingredient Y	2	2	Ingredient buyers should be able to inform about the specifications and prices being obtained by competitors
Packaging	13 -higher cost due to features with increased consumer benefits	12	Packaging buyers should be able to inform about the specifications and prices being obtained by competitors
Conversion costs	12 -More capital intensive	11 -More labour intensive	Factory managers provide insights into the processes and the equipments of competitors
Distribution costs	8 -Third Party logistics partners, longer distance to Customers' RDC	6 -Own logistics , local production	Distribution managers should have information on the logistical arrangements for the major competitors
Gross Profit	38	37	

Source: Organizational BMP Case Report

6.6.2.2. *Product - The profitability benchmarking*

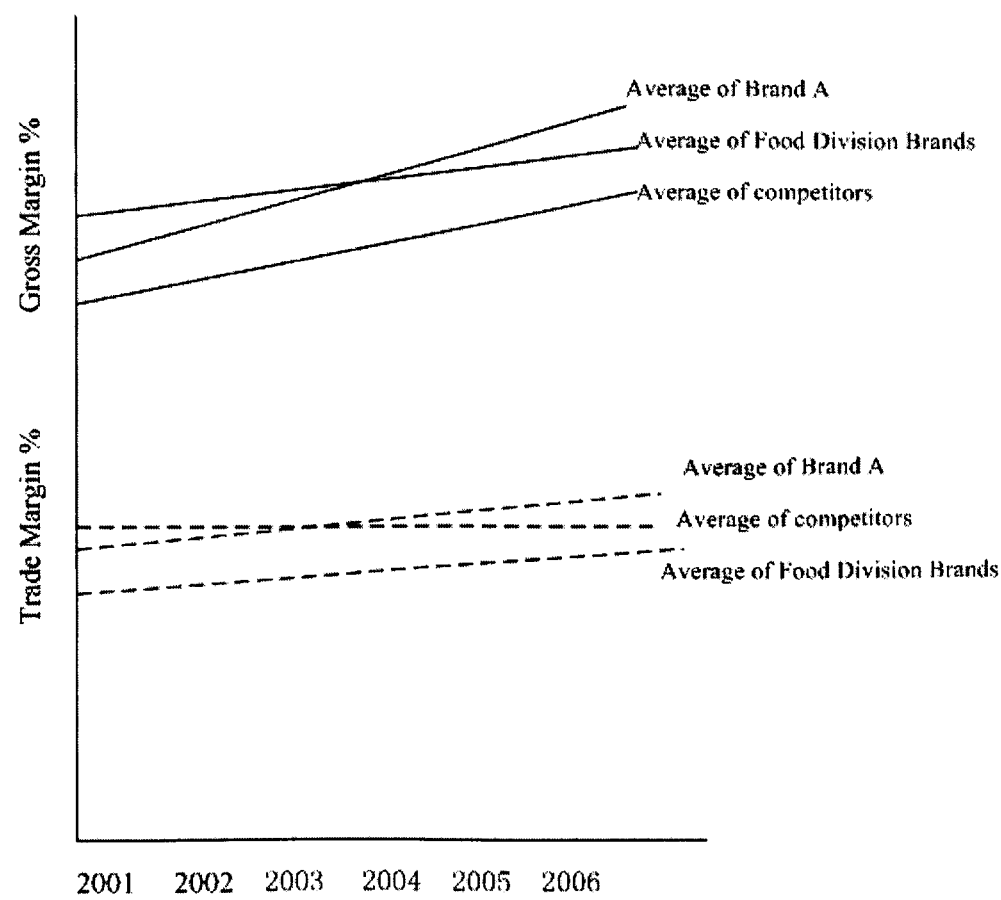
Figure 6-10 is an illustration of profitability trend analysis produced by the accountant partners. This framework was based on the idea that analysis of products should go beyond an internal and single brand perspective. There should be comparisons between different brands, especially those in direct competition. These comparisons were helpful in providing insight on the existing levels of performance of the brand and future improvements needed in order to beat the competition.

Profitability benchmarking normally covered a medium to long-term period. The accountant partners considered it important to show the trend over a long period because the figures from a single year could be misleading. In addition, because comparisons with competitors were the main focus here, it was important not to let accounting conventions get in the way of meaningful analysis. As there might be different accounting treatments that could potentially distort the findings, comparisons made over a longer period could help smooth the periodical fluctuations and provide more accurate indication of the relevant performance.

Roslender (2003) argued what differentiated SMA from many parallel developments was its external orientation. Using the term 'Strategic' to name the approach was also intended to convey that SMA incorporated a long term outlook, as well as a broader emphasis than other parts of management

accounting. In this benchmarking Figure, both of these characteristics have been emphasized.

Figure 6-10 Brand Profitability Benchmarking



Source: Organizational BMP Case Report

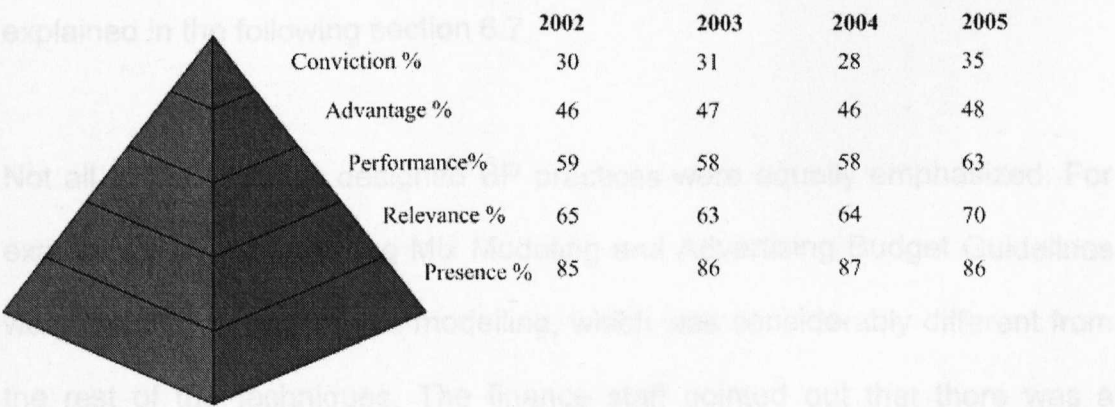
6.6.2.3 Promotion - Brand loyalty Pyramid

Brands vary in the amount of power and value they have in the marketplace. Some enjoy brand preference and command a high degree of brand loyalty, which means buyers select them in preference to others. Therefore, it is valuable to know the levels of brand loyalty of the current customer base. The Brand Loyalty pyramid was offered by accountant partners as important non-

financial measures to help the brand teams track the loyalty level of different customers to a brand. As the main purpose of brand promotion is to convert the customers from lower levels to higher levels of loyalty, loyalty is an important measure of the relationship between the buyers and the brand. As indicated by marketing research (Philip, et al, 2005), Loyal customers are few and most customers are '*promiscuous*' and '*polygenous*' (pp.407) in their relationship with brands.

The different weightings on different loyalty levels provide useful guidelines to guide future marketing efforts and introduce different focus on designing the sales promotions. This brand loyalty pyramid was integrated in the 'quarterly brand tracker' report to help track the development over a medium to long period of time to see how the audience's perceptions and preferences change. Below is an example of Brand Loyalty pyramid.

Figure 6-11 Demonstration of Brand Loyalty Pyramid



Source: Organizational BMP Case Report

6.7 Summary of Brand Development

Three main tools used in assisting marketing decision-making have been introduced. These tools showed dedicated support to marketing decision-making concerning pricing, products and promotion. To ensure that the greater marketing accountability was better received by the users of marketing information, these tools were integrated into the BMP. Each brand's unique market context and the challenges faced will have different implications for the marketing 4P model, e.g. promotion, pricing, product, and place. The analysis conducted by accounting partners was focused on the most relevant and important issues to inform future action plans. Therefore, the process of carrying out BMP procedures is also the process of conducting all these analyses. The final decisions and subsequent actions should have been informed by all these considerations.

The 'Place' dimension in marketing operations was managed by the customer management team under the topic of 'customer segmentation', which will be explained in the following section 6.7.

Not all of the centrally designed BP practices were equally emphasized. For example, both of Marketing Mix Modeling and Advertising Budget Guidelines were based on econometric modelling, which was considerably different from the rest of the techniques. The finance staff pointed out that there was a perceived '*big learning curve*' to really operationalize these techniques,

'Everybody sort of buys into it conceptually; I actually think there is huge step between buying into it and actually taking the first tentative step'. –AP1

Therefore, even though many people found it useful, they were struggling to put it into practice. The brand manager agreed, not all the theoretically sound techniques could be applied,

'When you are in business, you are dealing with real life...it's everyday hustle and bustle, you know, it takes all you can to get a product launched...you know you work up to the deadline, it is really hard to calm down and build yourself a model from scratch...You could send people on training courses, but in reality, they will never get that kind of time and space to do it ..'- AP2

6.8 Customer development

Most of the customers that the UK Division served were in the retail sector, but the customer base was still highly heterogeneous in terms of size, scale, and demand. On one side there were the international supermarkets like Tesco and Asda/WalMart; on the other were the independent retailers, convenience stores, petrol stations, newsagents, restaurants, hotels, etc. Different customers required different products and different packaging,

different levels of services, and different distribution channels. To make things more complicated, each individual customer's preferences varied. Some would appreciate elaborate cooperation; some require a comprehensive range of products, while others would see prompt delivery of a few bulk products as critical.

In the UK Division, customer service was traditionally managed by the sales function. The nature of sales work involved numerous small decisions and these small decisions were mainly based on negotiations with the customers' purchasing departments. For instance, whether you could successfully carry out an in-store promotion depended on whether this fitted with the retailer's agenda. This was quite different compared to marketing operations, in which the marketing team took the initiative and had control over those moves, examples of which included launching new campaigns or introducing new products. Because of the nature of the job, sales managers were traditionally acknowledged specialists of their respective market segments. This was based on their deep involvement with their customers, intelligence of the local market, and their bond with the individuals from the customer companies. The sales management had traditionally regarded their negotiation skills as 'critical', and stressed their intricate knowledge of the market and their ability to take flexible and 'ad hoc' actions when any issues surfaced. These 'ad hoc' actions, as a mode of operation, seemed to reflect UK Division's complexity and the pace of its markets. However, it was inevitably unsystematic and mainly based on the sales managers' impulse. Such impulses could for example be heavy promotion of certain brands in one supermarket chain, a tighter delivery time with a particular buyer, or quicker or more accurate

invoicing services for one specific account. Even though all these activities seemed to be benefiting one or another customer, they were not always value-adding to the UK Division as a whole, as they made the company suffer from distorted priorities, poor preparation, lack of consistency, and minimal internal co-ordination.

For a long period, customer management meetings were organized around major customer accounts and chaired by responsible sales managers. As a result, the attention paid to different customer accounts was unbalanced. Among these accounts, the traditional supermarkets chains normally attracted most of the customer service effort, sales managers in charge of those accounts seemed to be more influential. Sales managers of other retail accounts were somehow struggling to obtain enough internal support. Market conditions had however changed noticeably in recent years. Most of the new growth in retail markets had come from the growing convenience sector. Several interviewees from the sales function pointed out that the current business models of the UK Division were set up for traditional supermarkets, such as Tesco and Sainsbury's, which were experiencing a trend of slow decline.

'The food market in the UK is actually growing, but all this growth is coming from convenience stores, impulse sectors, as people now rely less and less on their weekly shop, but more and more on top-up shopping as life becomes more 24/7. How do we develop our business in this area? Effectively it is different set of customers.' - CAM1

Apart from the fact that customer management effort emphasized the large supermarkets. There were also other problems. Other functional managers were typically only involved in the customer management meetings at the last minute when acute and pressing operational problems surfaced. Many participants observed that, *'the meetings had very short-term focus, because they were led by sales people'*. Additionally due to the lack of communication between sales and other functions, whenever any problems surfaced, sales always blamed other functions for quality issues, delivery issues, invoicing, etc. Sales managers showed little appreciation of formal analysis and were reluctant to share their information with other functions, for example, due to the distance between finance and sales, there was very limited input into the organizational data warehouse from sales. As one finance manager commented,

The sales people are very good at what they do, but a lot of what they do is mainly dealing with customers. Sometimes they are not very good at planning nor understanding how the business relies on their information about customers and how the information needs to be communicated between us.'-AP2

In recent years, the conventional way of how the sales function dealt with customers faced challenges from several other aspects.

First, each year in the UK Division, the investment made and expenses incurred on serving customers outweighed the advertising costs on TV. These investments comprised mainly in-store promotions, such as *'buy one get one free'* offers, coupon redemption, etc. But the effectiveness of these

promotions had traditionally been a 'grey' area which historically lacked any rigorous and conscious scrutiny. This was partially due to the conventional corporate recognition that the major mission of on-site promotions was to generate revenues and attract customers. In recent years, however, the emphasis had been shifting from revenues to profits. Customer profitability has increasingly become the top priority. Gaining knowledge of the customer behaviours and the drivers of customer- related revenues and costs has been growing in importance. However, as the conventional sales efforts were dominated by pricing negotiations, sales appeared to lack any deep understanding of their customers' business. For instance, the most rapid growth in the retail market had come from 'convenience sector', such as 24/7 shops and express shops. This sector had less sensitive pricing concerns compared to supermarkets, but placed high emphasis on other issues such as product quality and punctuality of deliveries. However, the current mode of customer management was lagging behind in accommodating these new interests of customers.

Challenges to the current modes of 'customer management' were also found from the customer side. In recent years, influential customers started to impose more demands for more tailored operations. For example, Tesco (one the biggest customer accounts of the UK Division) had established a 'scoring system' to monitor the 'quality' and reliability of their suppliers. As one sales manager noted that, UK Division was given a precise temporal 'window of arrival' in some deliveries. This was tightly monitored. Physical delivery of the UK Division's products was to take place strictly, for example, between 6.30pm and 8.00 pm every Monday. But these requirements were largely

overlooked in existing sales operations in the UK Division. There was not sufficient emphasis on measuring the performance demanded by the customers.

'Customers are increasingly requiring formal statements concerning service targets, quality standards, and health and safety practices. These are seen to be basic requirements before contracts can be entered into. –CAM2

Before the rollout of BP, the relationship between finance and customer management was quite '*distant*', a noticeable contrast to the close alignment between marketing and finance. Sales managers held a sceptical attitude on how much finance could contribute to the customer management activities. In the mindset of most of the sales managers, the accountants' main role was to manage accounts payable and receivable, and maintain financial budgets. They could not see how these operations were connected with the intricacy of dealing with customers.

From the finance perspective, the sales function was traditionally managed as a 'cost centre' rather than 'profit centre'. Therefore, the emphasis from finance was predominantly on budgetary control, i.e. '*how to stop sales people from spending too much money*'- AP1. The existing measures used by the finance function were very financially focused, backward looking and devoid of critical details. Annual spend budgets and sales targets were routinely set based on historical records, but there was a lack of involvement in any specific customer account details. Therefore, the existing financial measures failed to

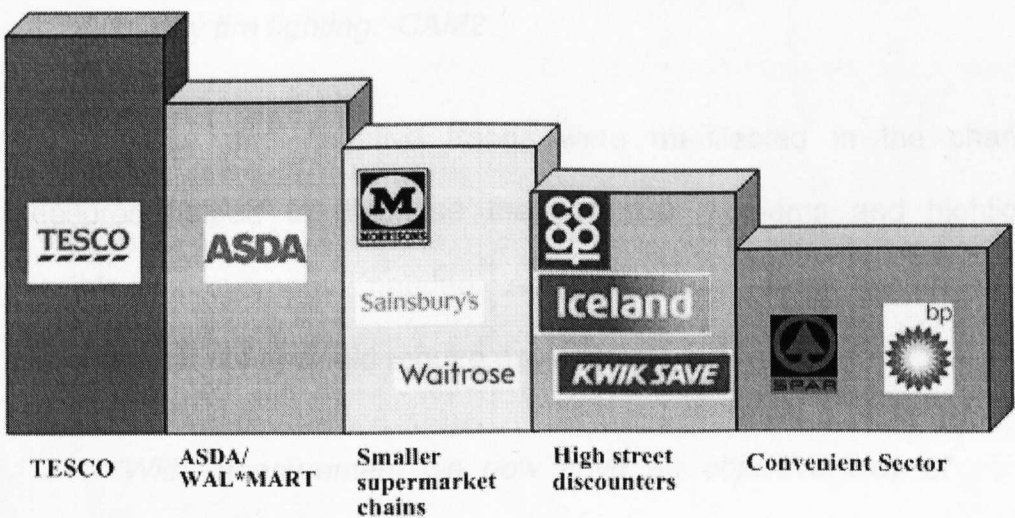
capture the crucial issues relevant to customer management, and hence sales staff criticised these traditional financial measures as being monolithic.

'We didn't carry out any level of sophistication. If a big customer specific issue came up, we might get involved with that, but basically they get by on their own and I believe the business suffered because of that.'-AP2

These new market conditions encouraged the UK Division management to find ways to not only accommodate the customers' business requests but also achieve and maintain the sales growth and profitability targets. BP was required to deal with these problems. A consensus was formed on the BP project that clear segmentation of customers into different categories and systematic measurement should be the answer to the emerging problems. Marketing research (McDonald and Dunbar,2000; Gurau and Ranchhod, 2001; Badgett and Stone, 2005) suggests that, through customer segmentation, companies divide large heterogeneous markets into smaller segments that can be reached more efficiently with products and services that match their unique needs. Additionally, building upon the segmentation, new measures should be adopted to ensure that the vague concepts of 'customer satisfaction' and 'customer service quality' are replaced by precise measurement so as to make customer service more formalized operations with a higher profile.

The first change brought forward by the more focused approach of customer segmentation was that customer accounts were categorized into 5 distinctive groups as shown below. Foster et al (1994) stated that the criteria of segmentation can vary. Specific individual customers, customer groups by size, by geography, or by type of distribution channels all can serve as the principles for categorization. In the UK Division, the categorization of customers was based mainly on the criterion of different business models. Due to the large scale of trading, Tesco and Asda (as part of Wal-Mart Group) were treated as separate categories. Smaller supermarket chains structured the third category. 'High street discounters' were the fourth group. Then the convenience stores were separated from other groups and formed the fifth category.

Figure 6-12 Five Major Sales Accounts



Source: Organizational Market Intelligence Report

6.8.1 New Customer reports

This new categorization of customer accounts facilitated a systematic effort of reinforcing customer management from a reporting perspective. Previously, reports were regarded as 'too broad and unpractical'. Now, two new sales and customer service reports were produced both weekly and monthly. One was a general trend analysis across different brands and multiple customer accounts to offer the senior management the general picture of accounts' performance; the other was designed to suit the needs of individual customer account teams. The employment of these new reports was aimed at achieving improvement and giving sufficient attention to customer management. Trends analyses were offered as an important component on both report formats tracking key financial indicators. One sales manager emphasized,

'Looking at trends, often over the years, reveals interesting developments which otherwise would be forgotten in day-to-day fire fighting.'-CAM2

Both positive and negative trends were manifested in the charts, the measures helped to diagnose the potential problems and highlight the possible improvements needed. Abrupt turns or large variances in the measured variables would require explanation.

'With measurement we now have an objective way of looking at things. You can not sweep the results under the carpet if you see the graph slowly deteriorating' –CAM1

Even though both of the reports took on similar formats, they had distinctively different foci. Sales reports to senior management were designed to provide a comprehensive overview for coordination and governance purposes, while the reports to individual accounts put more efforts on exploring the performance details.

Figure 6-13 and 6-14 are examples of the two report formats. As shown on the charts, the report for group meetings was inclusive across all the brands and accounts. Comparisons between brands were made easy to follow. In contrast, the individual account profitability report contained many operational details that could be drilled down to sub-measures, many of which are non-financial measures, covering many key areas of customer services such as customer complaints, delivery quality, stock availability, invoicing, and business enquiries. In technical terms, these measures are designed to complement financial measurements by regularly monitoring an array of activities and functions that are deemed 'critical' in terms of customer satisfaction. A few exemplary entries can be found such as 'Distribution and quality complaints increased with Sainsbury's during October' (Customer complaints section) and 'Pricing inquiries account for the highest proportion of invoice queries with convenience stores' (Invoice queries section), etc.

'To create appropriate measures, we need to look again at our customers' needs and devise standards which most closely represent them.'-AP2

Figure 6-13 group level customer profitability report

Customer Profitability as % Turnover- YTD May 2006 Where do we get the best margins												
Account	Tesco	Asda	Somerfield	Iceland	Co-op	High Street Discounter Total	Sainsbury's	Morrison's	Waitrose	Supermarket Total	Convenience Sector	Other Accounts
Milk												
Brand A												
Brand B												
Brand C												
Yogurt												
Brand A												
Brand B												
Brand C												
Brand D												
Snacking												
Brand A												
Brand B												
Brand C												
Icecream												
Brand A												
Brand B												
Brand C												
Total												
Grocery												

Source: Organizational Sales and customer management report

Figure 6-14 Account level customer profitability report

Customer Profitability - Convenience Sector YTD May 2006												
What is driving profitability												
Account	Target Revenue	Efficient Ops	Business Building	Other Terms	TSR	Turnover Inc. releases	Total Material cost	Production & Supply cost	Gross Profit	Gross Margin	Customer profitability (CP)	CP % Turnover
Milk												
Brand A												
Brand B												
Brand C												
Yogurt												
Brand A												
Brand B												
Brand C												
Brand D												
Snacking												
Brand A												
Brand B												
Brand C												
Icecream												
Brand A												
Brand B												
Brand C												
Total												
Grocery												

Source: Organizational Sales and Customer Management Report

In the process of designing these two customer reports, BP placed great emphasis on a pool of various non-financial measures which already existed in the UK Division, but were scattered in different functional areas. Some of these existing measures were 'local' operational figures and had been employed over a lengthy period of time. Measures such as delivery performance, as well as stock levels, had always been measured and recorded by their respective managers.

'The accountant partners helped to extract some local information that had already been there. The difference is that previously it was not considered as important. And it was not collected and analyzed in a systematic way.-PL

Formal measurement provided objective information for other functions to deflect sales managers' criticism. While in the old situation, these instances of arguing about problems caused considerable resentment and tensions between sales and other functions, with the new measures, it seemed, the documented and accurate quantitative knowledge helped the functions fend off the unwarranted charges from the sales. These charges normally concerned quality, delivery, transactions, etc. For instance, OM articulated:

'Some people say that ' we are having a problem with quality and put the blame on quality people...You can now grab the reports and say no, the quality has been improved three years in a row.'

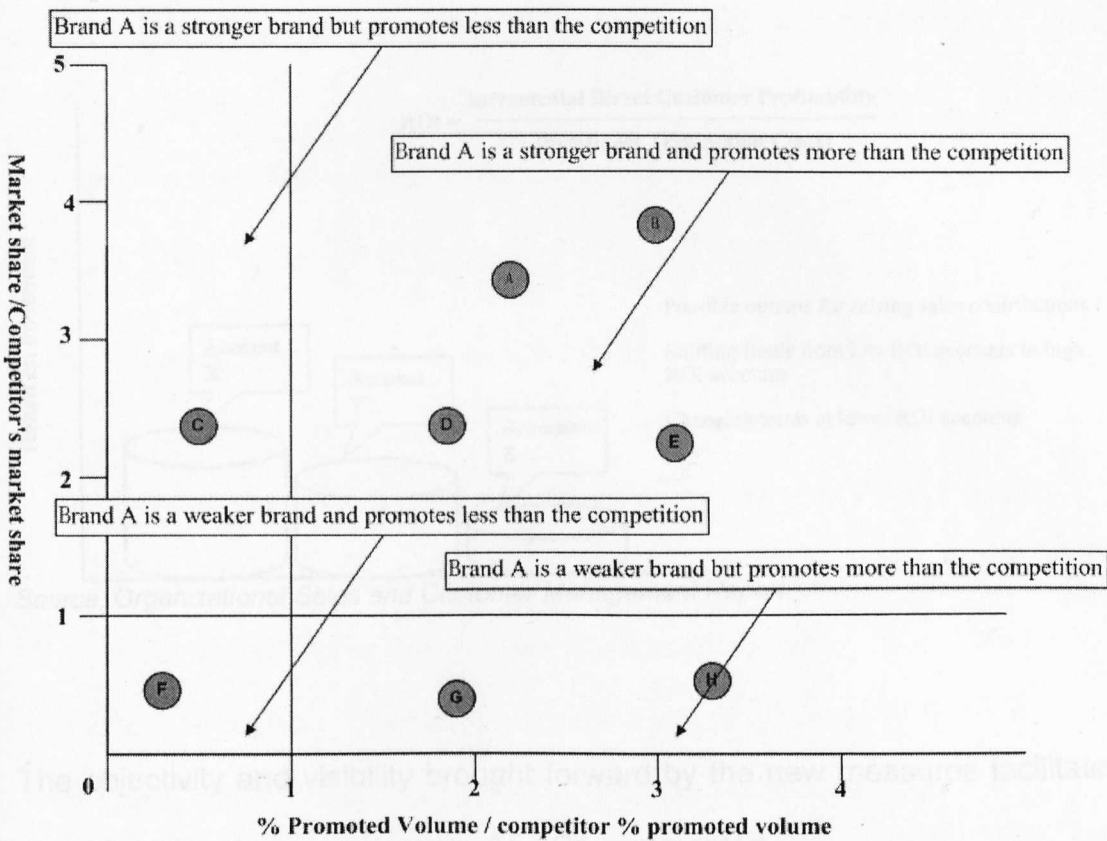
Previously, competition information was, to a large degree, omitted, but now it is regarded as vital. More data was bought in from third party providers. ACNielsen's market share data that details product category and brands has been commented on by the financial managers as '*brilliant*' in helping monitor the market trends, competitor moves, and changes in customer preferences.

Figure 6-15 and 6-16 offer two examples of how the new reports capture insights into competition and help direct the customer management efforts. The most important analysis here is the brand profitability measured by customers and by channels, coupled with explanation of causes of the differences. Comparisons between customers and channels can be particularly helpful as it helps the sales managers obtain a comprehensive view across different channels, different products, and different accounts, and make better grounded decisions based on a series of criteria that are critical to the whole business.

'We can't do everything with all our customers we like to do, we have to make choices. Where should we be choosing to spend our money, if we get a fixed pot of money to spend , should we be trying to take it out of one customer put it on another? This information helps us to make such decisions

—MM

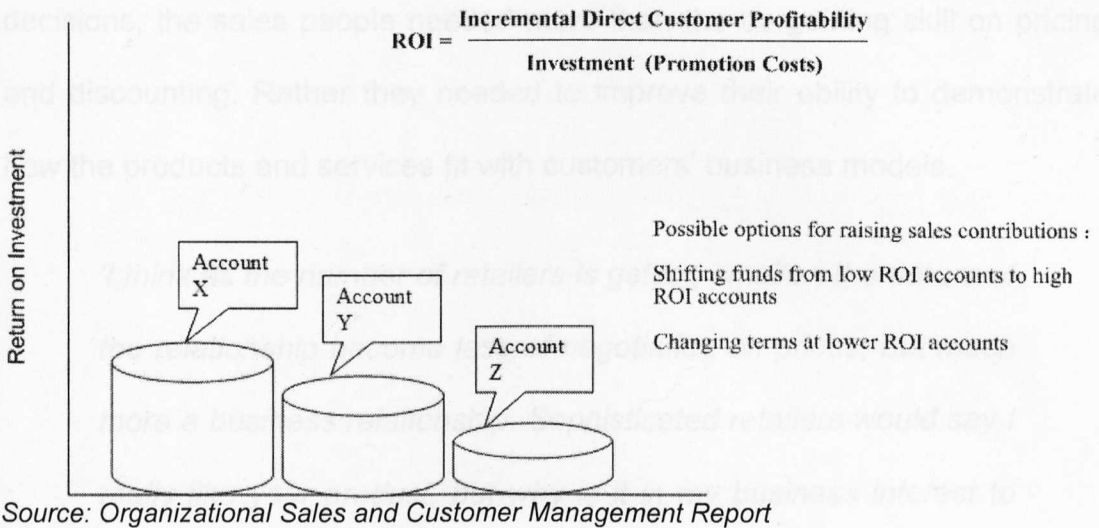
Figure 6-15 Brand Strength V.S. Key Competitors across customer accounts



This analysis examines brand promotion effects by customers. The vertical axis represents market share compared to the competitor with 1.00 represents equality. The horizontal axis represents promotional spend on a similar basis, so that a rating of 1.00 on both axes indicates a balanced relationship. The Dots on the chart represent different customer accounts. The comments in the boxes could and should lead to questioning and discussion about the underlying reasons and the possible changes that might improve the current situation, particularly the under-performing areas (the bottom two quadrants). On the top-right quadrant where Brand A is strong and over-promoted, efforts should be directed to reduce the promotion investment and sustain competitive advantage at the same time.

Source: Organizational Sales and Customer Management Report

Figure 6-16 Brand Return on Investment (ROI) analysis across customer accounts



The objectivity and visibility brought forward by the new measures facilitated cross-functional communication. As AP1 commented,

'Quite often, sales spoke a different language to the rest of the business. It sounded good what they were talking about, but you can never quite understand it. Equally so, the business makes requests of the sales guys and they don't quite understand the context of why and what the request is really after.'

Therefore, successful translation of the customer demand from the terminology that only sales personnel understand to organizational wide knowledge was critical in assisting organizational planning. What's more, the 'negotiation skills', which were traditionally regarded as 'critical' by sales mangers, had gradually lost their significance in the new competitive

environment. With new growth largely from the convenience sector and discounters, different promotion strategies were needed and more complex supply chain issues surfaced. To persuade customers to make the purchase decisions, the sales people needed more than the bargaining skill on pricing and discounting. Rather they needed to improve their ability to demonstrate how the products and services fit with customers' business models.

'I think as the number of retailers is getting smaller, the nature of the relationship become less of negotiation on prices, but much more a business relationship. Sophisticated retailers would say I really like your product, but why is it in my business interest to stock it? So therefore it is not a negotiation merely about ok I give you 10% off, but why it is good for your business to take my products. That is a different kind of conversation'- CAM2

6.8.2 New communication language

The effort of the BP on optimizing customer management did not stop at providing more comprehensive reports (See figure 6-17 below for details of the main responsibilities of accountant partners). The involvement of accountant partners had also been focusing on helping sales managers get more understanding out of the analysis. Training was provided to help sales people input sales and customer service relevant information into a data warehouse to share with the rest of the organization. Workshops were organized on how to utilize the data and analyse the results. In conducting all

these activities, accountant partners helped to spot the weakness and improvement opportunities, and to evaluate different possible actions to achieve the targets. These decision support efforts ranged from short-term tactics, for example, helping with a specific promotion, to long-term strategic choices, such as designing a different promotion strategy. As AP2 put it,

'So the business partnering includes a range of things really, from explaining the results to them, say turn a page and very quickly tell the top issues here, and getting them to understand the concept like forecasting, risks and opportunities around, and feed into the business planning process in a more efficient way. Our job is to make sure they get the right information at the point in time when they need it and they also get the understanding.'

Along with the new segmentation of customers, regular meetings were also organized around the customer accounts. These meetings normally involved a dozen managers from all 'critical' functions such as distribution, logistics, quality control, and marketing, etc. In the meeting, sales managers were not only asked to explain the key figures on their reports. For instance, if the forecasted targets were not achieved, they needed to give explanations about issues that went out of control or were not included in the planning, and provide future solutions. In this way of doing things, 'peer pressure' was created and sales managers were urged to pay closer attention to their accounts and bring onboard in-depth analysis.

'You give them the right information; they are in their own world of self-criticism, which is brilliant. I think BP creates a situation

where the sales guys run the sales business in a finance-sound way, far better than me forcing them to do it' -AP2

This new way of sales meetings benefited the work of the sales managers as they felt better prepared and more confident to talk to customers with the enhanced awareness of all kinds of business issues gained from the meetings.

'I think they (sales managers) do get value from the BP activities that we are doing now. We get a better feel of where we are as a company, so they feel that they are going to have a good day when they are presenting to the customers and they come back and feel good, so it's a good build up.'-PL

Figure 6-17 The major responsibilities of the accountant partners

- Understand and improve customer P&L actuals and forecast (ours and the customers) and our market share in the customer
- Drive improved understanding of ROI of promotional spend through rigorous pre and post evaluation
- Assist Account Director in leading joint business planning
- Understand the customer - how they run their business, bring the customers results to life within the team, understand our impact on the customer (their KPI's) and understand the competitive environment in order to drive growth with that customer.
- Broad ownership for sections of our balance sheet that refer to our customer
- Contribute to specific account projects with a financial aspect (e.g. customer mergers, Euro pricing, Trade Terms alignment, etc).
- Provide ad-hoc advice, coaching and financial training to customer team
- Drive through the Account Director, the implementation of win with customers strategy within the account team and lead strategic investing for growth
- Maintain ties to global customer team e.g. (Tesco, Wal-Mart) and overseeing provision of performance information to customers
- Provide Finance support to the Customer Marketing teams
- Help ensure legal compliance
- Act as the voice of the customer within Finance
- Support and communicate customer pricing strategy

Source: Business Partnering training materials- Finance

6.9 Conclusion

Business partnering operations in ULE is an example of management accounting taking a progressive step beyond monetary measurement. Non-financial, 'customer-focused' measures have become a part of the contemporary management accounting apparatus in the company.

Management accountants were approaching other business operations, such as sales, and marketing more thoroughly with the support of a wide range of new measures. For example, finance often played the 'peace maker' when there were conflicting business interests between different functions. The solutions reached were usually based on the facts and 'hard data' offered by accountants and agreed by all the parties.

'Quite often, the messages from finance do have a bit of extra authenticity, because the finance people are seen as honest brokers , again, talk about sales and marketing people clashing, we try to be peacemakers in the middle of that.'-AP1

This formalized BP way of scrutinizing business opportunities and executing business actions gradually formed a new way of communication in ULE, in other words, a new working language. To some extent, it was highly desirable for this language to come into play in the UK Division, as the successful conduct of organizational operations become more and more comprehensive cooperation across multiple functional boundaries. For example, to promote a new brand,

there will be promotions both on TV and in stores. Successful sales and marketing promotion were becoming more and more cross-functional efforts. Making the operational units clear in terms of what the market needed called for the common language that could be communicated across the organization.

Business Partnering also imposed new challenges on the management accountants, as the key to success of BP was for them to become real partners in assisting to manage the business. The accountants therefore needed to be more open to learning about the business as a whole, and to actively contribute by introducing real insights, applying business judgments and acting as a 'sounding board' in cooperation with other functions. (Coad, 1996, 1999), but at the same time keeping the objectivity,

'It can be effective for an accounting person to play the role of the objective, independent individual who , helpfully and constructively, asks the questions that marketing colleagues are often too close to ask, such as what is our competitive advantage, why do we do it this way and what are our competitors doing?'-AP2

The business partnering program in the UK Division was regarded as a considerable success. Three years into this program, the company had achieved over-average growth in terms of profitability and market share expansion in the peer group. Compared to many failed attempts of management accounting going 'strategic', management accountants' involvement in UK Division was comprehensive and successfully embedded

in many functional areas. Especially, since SMA researchers have strongly advocated the bridging between accounting and marketing operations (Foster, et al, 1994; Roslender and Hart, 1995, 2003), it seemed the UK Division's experiences offered a very promising model for cross-functional cooperation.

Chapter 7 CASE STUDY OF MEDITECH - DESCRIPTION

Table 7-1 Interviewees of Meditech

Interviewees	Code	Number of interview conducted
GBU Financial Director	FD	1
Senior Financial Manager 1	FM1	3
Senior Financial Manager 2	FM2	2
Operation Manager	OM	3
Marketing Manager 1	MM1	2
Marketing Manager 2	MM2	1
Business Intelligence Manager	BIM	1
IBP director	IBPD	2
Total		14

7.1 Introduction

The second study focuses upon Meditech, a global medical technology company. In the questionnaire feedback, this case company has indicated that it had experienced recent changes on management accounting operations, which were largely driven by the company's structure change, from a regional arrangement to a global focus. Meditech's new accounting operations exhibit substantial SMA characteristics. These characteristics are mainly in the form of innovative report formats and the in-depth involvement of management accountants in strategic decision-making processes and commercial cooperations. To provide a detailed account of the management accounting change that happened in Meditech, this chapter is divided into 4 sections. Section 7.2 offers brief background about Meditech and its Advance Wound Management (AWM) GBU. Section 7.3 traces the evolution process of finance operations from traditional to 'strategic'. Section 7.4 overviews the

current SMA practices employed by Meditech. Section 7.5 offers a summary of the findings and further analysis.

7.2 Organizational background

Meditech group is a medical technology company operating on an international scale with 3 major global business units (GBUs), namely Orthopedics, Endoscopy and Advanced Wound Management (AWM). It has been more than 150 years since Meditech was first set up as a family business in England. Over time, the Company has grown into a global conglomerate with multi-billion pound turnover. Meditech is now one of the largest companies in its field in the world.

In recent years, the medical device market has been under rapid growth driven by aging demographics and modern technology. Meditech has been structured around emerging innovative technologies and enjoying a fast growth. But at the same time, the company has been facing more and more severe competition due to new entrants into the market tempted by lucrative margins.

This case study is focused on one of the GBUs, Advanced Wound Management (AWM). GBUs in this company are independent in designing and implementing their own strategies, it is therefore possible that different GBUs' finance operations can be different. Choosing AWM as a case study site is justified on the grounds that the initial questionnaire feedback was provided by the AWM financial controller and AWM served as an appropriate

research site with its large-scale operations. In addition, due to the wide range of diversified products the company has in various fields, it is feasible to focus research attention on just one business unit. AWM is the second largest GBU within the group with an annual turnover of around £ 350 millions and it is a world-leading provider of advanced wound care products used to treat hard-to-heal wounds.

AWM management believed that sales of wound management products worldwide were driven by an aging population and by steady advances in technology. Competitive advantage therefore resides in the products that are more clinically efficient and cost effective. At the present time, approximately half of all chronic wounds are still treated with conventional wound dressings. There is strong growth potential for advanced technology products. Therefore, the most important strategic objective for AWM to achieve was to *'focus on the higher value-added segments of wound healing'* (Annual report, 2004). This had been reflected in a trend that can be observed in the company that AWM has gradually turned its R&D focus from traditional medical textile-based products (*for example, cheap wound dressing*) to the high value-added and advanced wound-care products (*for example, expensive capital devices for wound preparation and wound healing*). Overall, there was a wide range of products, with more than 100 individual brands, on offer to cover all stages of the healing process. Among these brands, there were three major brands that generate more than 60% of the total revenue of AWM. They are referred to as 'super brands'.

AWM has 4 manufacturing sites and 35 outsourcing suppliers worldwide. AWM's major customers are the various providers of medical and surgical services worldwide. In many parts of the world, these were largely governmental organisations funded by tax revenues. The largest buyers of AWM products are the National Health Service (NHS) in the UK and HealthTrust in the US.

7.3 Organizational change

Prior to 1999, Meditech had a regional structure established on a geographical basis. The global operations had been delegated to several regional central offices, namely Europe, America, Africa and the Far East. The regional directors oversaw the operations of the whole region and then reported to the global headquarters. The origination of this regional structure could be traced historically to the geographical expansion pattern of the company over the previous decades from the UK local market to Europe, US, and then over the other continents.

During the 1990s, the organization launched a series of successful products and had been enjoying fast growth. This fast growth exposed the inefficiency inherited in this regional governance structure, mainly manifested as a lack of coordination in the global supply chain and the commercial operations. All the regional functional departments, from operations, to marketing, to sales, were tasked with dealing with all the different lines of products at the same time. They were however constrained by their regional visibility. Different country

markets had distinctive needs for different products. For example, Britain had the highest demand for advanced wound foam products. In contrast, while America had the largest wound dressing market, the dominating products were still very traditional. It was therefore critical for the organization to design appropriate products to suit the individual markets. However, within the regional structure, the global markets were segmented geographically. This did not help the commercial departments gather market intelligence, nor did it assist the R&D function to provide appropriate product designs for different country markets.

The regional headquarters had traditionally placed considerable stress on financial performance. The control system and measures imposed upon operating units were therefore very financially orientated. Aggressive pursuit of year on year growth was demanded by the regional finance offices. This emphasis on growth and financial health was inevitably linked to an environment of mounting global competition. As MM1 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.'

This regional structure, compounded by rigid financial control, had hindered the company's global pursuit of growth and caused various intraorganizational conflicts. Tensions could be easily found between the commercial teams and

the regional financial administration. A common perception shared by the individuals through the most of 1990s was that:

'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'.'-OM

The headquarters was trying hard to find answers to solve the dilemma between tight regional control and global business flow. In the late 1990s, a major consulting group was involved in the design of an organizational-wide strategic transformation. A Global Business Unit (GBU) structure was developed, which aimed to remodel the business into global business units by the distinguishable nature of their different activities and different products.

In early 2000s, Meditech launched the worldwide change from a regional structure to GBU structure. Three GBUs were set up in hope of *'creating and defining a new set of businesses instead of all business of individual countries.'*-IBPD. The previous central finance office was downsized to a small team to consolidate all the data globally and deal with external financial reporting procedures.

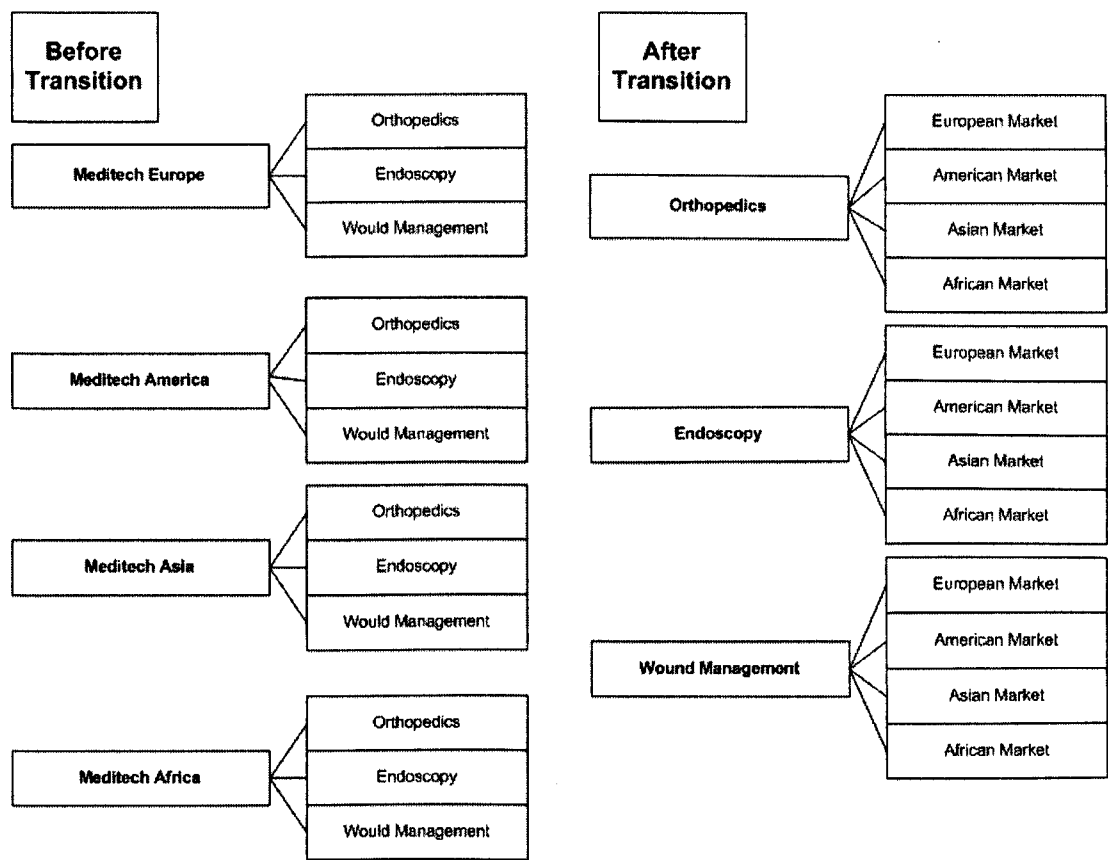
Along with the establishment of GBUs, came greater autonomy, for example, GBUs were required to bring forward their own strategies. As a result, the AWM board united on the notion of establishing the GBU with a clearly

defined strategy of '*focusing on the higher added value segments of wound healing*' (Group Annual Report, 2005). 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.

Additionally, AWM specified three 'super brands' to which it gave maximum attention. Super brands were either the current main revenue generators or seen by the organization as of huge future potential.

The reorganization from regional structure to GBU structure was a smooth transition, driven by the headquarters' objective of more globally coherent operations. In addition, as the production, supply, and commercialization of different products were naturally separated, reorganizing the operations along the product lines was fairly straightforward.

Figure 7-1 Transition of organizational structure from regional to global



Intention of creating and defining a new set of businesses instead of all business of individual countries

The emphasis on high value-added products of AWM gradually led to a 'super-brand focus' within the GBU. There were three super brands which account for 60% of the total revenues of the GBU. As a result, investment towards these super brands were inclined to be approved more easily, while many other smaller brands were somehow overlooked and it was difficult for the product managers of the small brands to generate 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. This 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 focused upon the more profitable 'capital device' market. Meditech lagged in this new market sector and were under mounting competitive pressure.

'Super brand focus was really helpful to drive forward the super brands, but what it had done, conversely, was that it created silos where people were not necessarily communicating as much as possible, especially with the new product development projects dealing with multiple aspects. Previously a number of products may have been required to meet a particular patient's needs. In the current environment, these needs can increasingly be met with a single treatment. This is the integration we are looking for.' - MM2

This new situation also imposed new challenges on the traditional selling approach adopted by Meditech. More and more, decisions by customers were being made with reference to important finance criteria, e.g. profit targets, ROCE, and cash flow, etc. Sales people were more involved in justifying and persuading the financial managers rather than only the purchasing managers of customer organizations (hospitals). This was because capital equipment was significantly more expensive than the traditional wound dressings, so

customer organizations often had a different approach through which purchasing decisions were made. This change required the sales people to master the language of health economics and develop an understanding of the financial impact of the purchase. Healthcare economic considerations needed to be demonstrated on how these could contribute to more cost-effective solutions for healthcare services. For instance, faster and improved healing to reduce hospital stays and rehabilitation time; reduced number of products required for effective treatment, i.e. fewer dressing changes for chronic wounds; and less clinician time through improved procedures and treatment regimes.

The supply chain was another issue that concerned the top management. In the previous regional structure, the lack of attention to the operational details from the central office had led to a situation that resulted in individual selling organizations doing things in their own way. One example was that the sales managers in their individual markets used to periodically drop prices at their own discretion to generate bigger volume, but once the prices were lowered, it was hard to put them up again, given the high price transparency and advanced market intelligence. This obviously resulted in sub-optimal company performance. Price reduction in one country could also lead to cross-border transactions and a chain-reaction to other markets, causing serious loss in revenues and damages to the brand images.

The problem of the supply chain was partially due to the inadequacy of database systems. Different markets and different functions used to operate

their own information systems relating to collecting and reporting data. There were in total 14 different IT systems implemented in different departments and different country markets, serving different purposes, some on transaction recording, some for gross financial reporting, and some for forecasting. Segmented data sources caused difficulties to validate data across systems and to provide accurate forecasting to inform supply chain activities from manufacturing to sales.

A further reason that caused the supply chain problem was that the selling organizations were managed by rigid financial controls which were administered remotely. The management from headquarters actually impelled the sales staff to make decisions which were best for their own purposes but not necessarily optimal for the whole organization. So the selling organizations always regarded reaching selling targets in terms of either revenues or/and volume the top priority.

'... 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 market managers (of the selling organizations) and that depended on whether that person had a good relationship with that particular manager of 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.'

–IBPD

A similar tension also existed between finance and marketing. The only direct interaction between finance and marketing used to be confined to a budget approval procedure. As finance was used to enforcing rigid budgets, there had been a negative perception about the finance function and management accountants, and consequentially a noticeable lack of mutual understanding and trust. Marketers felt intimidated in dealing with accounting because the accounting staff were perceived as merely concerned about the figures. In addition, they did not regard accounting as involved in any future thinking, for this reason, they did not believe the accountants could understand and contribute to the marketing operations. Therefore, when marketing teams needed extra funds, they used to bypass the finance and asked for approvals from directors.

'Go back 5 years; to work with an accountant I would be absolutely appalled. Really, because I think, in my opinion, accounting has been seen as a function that only says no.'

–MM2

Meanwhile, finance was also dissatisfied with the quality of the marketing projects.

'You do get the impression that the marketing did not actually tell you everything. When I was working on investment appraisals, they used to come up with those huge sales figure to justify their investment, and I kind of doubted where they got those figures from. I'm sure we made incorrect decisions just because certain marketers were putting in high numbers to get investment. It's ridiculous really. With the marketers, they always want to get their brands recognized over other brands. That is really not necessarily. We have only got limited funds; and they all believe they can do best with that money.' –FM1

The above reflects a series of problems. In seeking a remedy, the AWM Board initiated changes to improve the global operations. An initial recognition agreed by the Board was that there was a strong need to improve the global supply chain as significant savings were expected to be realized from optimizing production and supply chain management. A new supply chain director was appointed in 2002. The new supply chain director stressed that AWM had historically overlooked the importance of planning and coordination. This opinion was formed based on his experience from previous appointments in the FMCG sector. Soon afterwards, AWM launched a consultancy-initiated program, Integrated Business Planning (IBP). The board agreed on the notion suggested by the consultancy that the central planning function needed to be strengthened. Consequently, a new IBP department was established to take control of 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.' -
IBP director.

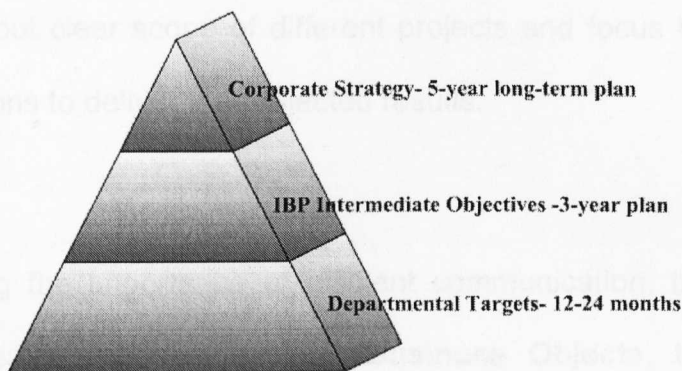
In AWM today, the integrated business planning (IBP) department is centrally in charge of planning and controlling activities. The main responsibility of the IBP is *'to integrate the global business process to make sure that AWM is on track to achieve the strategic targets.'*-IBPD This is especially reflected in two aspects, the linking of organizational strategy and operational strategy, and the structured process of sanctioning business projects.

IBP explicitly links the long-term strategy of the GBU (normally 5 years ahead) and the short-term operational goals at departmental levels (1-2 year plans). IBP makes viable and explicit plans for the next 3 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' –

MM2

Figure 7-2 Demonstration of the Three-Dimensioned Corporate Strategy



Source: Internal IBP training materials

The IBP panel had authority to execute business initiatives with the guidance of an internal scoring system, which was in place to evaluate the strategic significance of projects based on a list of factors, such as size, input and return, strategic importance, business rationale, etc. All the business projects and development initiatives were categorized into departmental level, intermediate level, or GBU level. For example, if the scores of the projects were within the departmental level (1-19 on the score system), department managers could have the projects executed within their own budgets. If the projects scored 19-35, this would indicate that cross-functional cooperation and central coordination were needed. All the other business cases that scored beyond 35, senior management involvement would become a necessity.

Different projects were also reorganized into 3 groups, namely, **portfolio**, **commercial**, and **Supply Chain**. **Portfolio** included all the new product R&D, brand build and product extension activities, etc. **Commercial** was mainly

concerned about sales of existing products. **Supply chain** focused on production, logistics and after-sales issues. This new categorization helped draw out clear scope of different projects and focus the attention of multiple functions to deliver the projected results.

Seeing the importance of efficient communication, the IBP implemented a new sales reporting system, **Business Objects**, to provide unified and reliable information across all business functions. The new system was regarded as the '*backbone*' of the IBP process and was essentially a data warehouse hosting all validated, consolidated and decision-relevant information. New planning and forecasting information offered greater credibility for finance and the communication between the departments had also been facilitated by the improvement in the shared information. The IBP director believes the biggest contribution of IBP is to make

'all the right information go into the right meeting at the right time, only by doing so, can right decisions be made'.

To resolve the silo mentality existing in marketing, a new marketing director was appointed to supervise all the brands and ensure efficient communication and logical resource allocation between the different brands.

'IBP is to consolidate the whole process of planning and make sure everyone is looking at the same figures and knowing

what's going on, so that you get people working together, rather than each section working for their own goals, without realizing the strategic directions.'-OM

7.4 Management accounting operations in AWM

In AWM, management accounting had gone through a process from initial denial of change to later acceptance of the transformation. When the organization changed from the regional structure to GBU structure, the management accounting operations remained largely unchanged. It was only when the new IBP came into operation that new accounting practices, which increasingly displayed SMA characteristics, started to be systematically utilized.

During the organizational transition from regional to GBU structure, most of the conventional accounting operations had been inherited by the finance departments of the new GBUs and accountants still only performed mostly routine operations. This can be explained by the fact that historically accounting operations were detached from the real business operations. Previously, within the regional structure, the management accounting function was not clearly defined. Accounting staff had spent most of their time dealing with external reporting. The internal management functions, such as planning, controlling, etc, had been performed, as best described, 'superficially' without sufficient consultation with other business functions. These malfunctions

mentioned above were related to the finance operations acting as 'bean counters', 'a mechanical process divorced from business reality, which can stifle initiative and even lead to decisions which will harm the business'(Friedman and Lyne, 1997,p.19). This way of accounting planning and controlling distanced finance from other business functions, unsurprisingly, the information produced by the management accountants was held in low regard by the users.

The accounting used to make the business plan, so the business plan was therefore very financially based. The finance team doesn't understand the markets. In terms of looking into where the markets are going in the next couple of years, there was not really anybody. So therefore, if you get nobody looking at it, how can you make a plan? I think that was the problem.-BIM

In addition, the lack of attention from management to the financial measures and finance department traditionally deemphasized the importance of management accounting reports and finance personnel in assisting decision-making. One example in point is that both accounting and commercial used to report their future forecasts into their own systems. However, data in different systems had rarely been cross-validated. Even when the operational or selling units missed their budget targets; there were rarely any consequential

actions. Therefore, there was lack of incentive for finance to get involved in operational details.

With the development of IBP, finance underwent significant reorientation. A separate team of accountants now dealt with transaction processing and statutory reporting. Greater energy of the Finance function had been liberated into the new business-support role. Two major innovative roles played by management accountants were decision support and commercial hybridization. New reports were introduced (general executive management measures, decision tool, rolling forecasts, as will be described more in detail later) to fulfill the information needs of the decision process. The financial director and the commercial financial controller exerted their influences to make the necessary management accounting changes happen. For instance, the **decision tool** has been designed through management accounting under the direction of the AWM finance director. The **rolling forecast** was co-designed by the financial director and the IBP director.

Traditional research recognizes 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 Commercial Financial Controller in this case emphasized the effort on analysis rather than reporting, and on explicitly supporting top management decision making. Even now, whilst the management accounting reports, such as rolling forecast and decision tool are still produced monthly, the foci have been shifted to management issues and a new significance has been established.

'I think the financial director is very keen on this. He is very interested in the business in terms of some of the brands as well. 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 asking questions like why you are going in that direction. – MM1.

'We are working hand in hand now with the accounting team, they've been flexible to actually restructure and support IBP. Our financial director is a believer in IBP and he wants IBP to work.'

-IBPD

To further support the commercial operations, especially the 'brand areas', brand accountants were assigned to the brand teams. This arrangement for brand accountants was also initiated by the financial director. His concern about the marketing report quality gave him the incentive to use management accounting to improve this situation.

'Before, we didn't really look at brands. That's where the marketers worked. Now, we have a team of three people dealing

right into the brands and we attend the brand meetings now, so the financial director gets reports across all of the brands. We now have a very balanced matrix, by brands and by markets.' –

FM2

Gradually, the move of adding the brand accountants into the commercial teams has proved to be successful. The accountants have effectively instilled financial awareness into the daily marketing and commercial operations. This helped improve the report quality and assisted communications across functions. As one brand accountant recalled,

'While, before, you got business cases to the finance 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. –FM1

Marketers also became used to the way of working side by side with accountants and gradually formed a high regard for the work of management accountants as they brought new insights into the marketing operations.

'I think what finance can do is they can ask very objective questions as opposed to subjective questions. You know, when we are pushing a certain strategy 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.' –MM1

The sales function also benefited from the close cooperation with Finance. With the injected financial awareness, the sales people were in a better position to persuade the customers to make purchase decisions, based on better understanding and more comprehensive analysis of the financial impact of a product and the health economic effects.

Finance also benefited from this close proximity. Through the dedicated contact of brand accountants, finance attained better understanding of business activities.

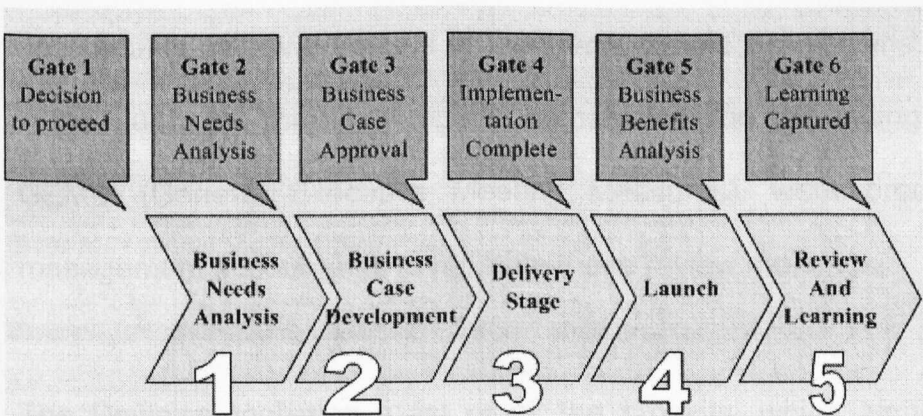
'I think there is always a danger that you have the commercial person looking for the commercial opportunities and you have the finance person that only sees the figures on the paper. Whereas I think now, because we work together more, I think people here are learning and understanding that you need the details and the finance people are learning about the bigger picture of commercial outputs. Yes, it works well.' –FM1

These new roles have embraced distinctive SMA characteristics, such as market and competition concerns, and future orientation, and made clear contrast with the conventional management accounting operations previously utilized which were largely financial-orientated.

7.4.1 Decision Support

The decision support role played by management accountants had been largely embedded in the IBP process. In each team assembled around the business case, there was a finance manager in charge of the budget and he/she sit on the IBP panel as a member of the sanction team. As business cases went through different stages of development, finance was closely involved in each stage of the sanctioning process. Figure 7-3 below is a demonstration of a typical IBP process which involves 6 steps and 6 gates.

Figure 7-3 IBP Process – Six Gates and Five Steps



Source: Internal IBP training materials

As articulated in the IBP procedures, before gate 1, the business cases were initially developed at department level. When it came to Gate 2, the cases would need to be presented in front of the IBP panel, which would make the decision of whether funding/investments were needed to move the business cases forward. For instance, if financial resources were needed for market investigation or lab trials, the panel would decide whether to authorize these resources. After the cases passed Gate 2 and before they proceeded to gate 3, full-blown business cases were needed to be built up with full documentary narratives and analysis. In addition, full profitability analysis of the cases was also prepared by the accountants. The IBP director believed it was critical to have all the business cases built into a standardized format to facilitate understanding and progress tracking month by month.

IBP meetings are held monthly to discuss the progress of different business cases. As business cases were categorized into three areas, there were corresponding global portfolio review meetings, global commercial review meetings, and global supply chain meetings organized. Management accountants as key members of the teams played a major and proactive part in the meetings. Three key reports, namely decision tool, rolling forecasts and GEMM (General Executive Meeting Measures), were produced by the management accountants to facilitate these review meetings,

The Decision tool was a list of all the projects, which highlighted all the business development initiatives that represented future business

improvement effort. Different projects were categorized under the headings of Portfolio, Commercial, and Supply Chain. The decision tool offered an overview for the whole business. Even though the nature of these investment initiatives were different, ranging from buying new machinery to recruiting new sales representatives, as there were only limited resources that could be dispensed, it was critical to categorize the projects and measure them with key indicators. The Decision tool was a way for IBP to compare different projects as alternative investment options in order to decide which would 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 last group plan? Is this going to derail 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 go down and say we definitely want to do that, or put that one back down because its score is relatively low.'—FM2

Figure 7-4 Example of the Decision Tool

Initiatives	Rationale	Status	Costs	Revenues	Impacts/ Comments
Portfolio					
Project 1	Increase sales and market share	Delivery/Provision			
Project 2	Cost Reduction and sales increase	Business needs analysis			
Commercial					
Project A	Increase sales and profitability in Japan	Launch/go live			
Project B	Maintain /enhance sales & GP in US	Business case approval			
Supply Chain					
Project X	Cost reduction and customer service improvement	Business needs analysis			
Project Y	Additional capacity and cost reduction	Delivery			
Project Z	Reduced risk and margin enhancement	Business case approval			

Source: Monthly IBP Report

The rolling forecast was based on the past 12 months (rolling up to date) sales revenues, costs and other relevant information, plus all the foreseeable changes, both confirmed and unconfirmed, and their impact on the future revenue and profit to give forecast on organizational performance for the future two years. The rolling forecast was updated on a monthly basis. The main effort here was to constantly update the forecasts with the latest available information on the progress of various projects to make more and more accurate predictions as the forecasts roll forward month by month.

The rolling forecast stressed the 'inspirational' nature of the practices to all the participants. Finance believed that rolling forecasts served as a 'brainstorming' mechanism, which brought all the functions together to set potentially achievable targets for the future. This practice also helped finance detect and raise questions about the future changes and solve any potential problems before they materialize. For example, if sales growth was projected to reach a certain level, which would be likely to cause capacity problems, this

would trigger the discussion of purchase of more machinery or manipulation of production requirements or adjusting stock levels.

Figure 7-5 Demonstration of Rolling Forecast

	2006		2007		2008	
	Sales	Profit	Sales	Profit	Sales	Profit
Target						
Latest Published forecasts & Impacts						
Movements after latest published forecasts			Impact of changes since plan		Impact of change since plan	
Movement A						
Movement B						
Movement C						
Confirmed Change			Impact of Change		Impact of Change	
Change 1						
Change 2						
Confirmed Rolling forecasts & Impacts						
Unconfirmed Changes			Impact of Change		Impact of Change	
Change X						
Change Y						
Unconfirmed Rolling forecasts & Impacts						

Source: Monthly IBP Report

GEMM was a top-level summary document produced by finance for the AWM board. Similar to the Decision Tool, GEMM categorised projects into commercial, portfolio, and supply chain with key performance indicators (KPIs) such as the general sales, growth, etc. In addition, GEMM paid special attention to brands; all major brands would have separate reports within this document. Main indicators on these reports included sales performance, gross profits, operating profits, growth, return on capital, selling and administration costs, etc. One drawback of GEMM, agreed by the participant accountants, was that these KPIs were mainly financial measures. But the rationale behind GEMM, as explained by the commercial director, was to conduct comparisons across the industry, as most of these key measures

could also be conveniently obtained from other major competitors. Therefore, GEMM was competition-orientated and was designed to provide the board of management with a broad view of the organization-wide performance in comparison with the main rivals. The measures were chosen by the directors, drawing on their opinions of what the key measures should include. Over the years, some of the measures had been removed and some new ones have been included to reflect the strategic priorities of top management.

Figure 7-6 Demonstration of GEMM measures

2005-2006	Annual Total	Trend	Budget 2007	Total	Trend	Competitor A	Trend	Competitor B	Trend	Competitor C	Trend
KPIs											
Year on year sales growth % -worldwide full year forecast											
See through GP% (GBU)											
Operating profit (EBITA %)											
ROCE (GBU excl goodwill)											
SG&A as %sales(GBU)											
Portfolio											
% Sales by portfolio											
% Sales from new products (last 3 years)											
Commercial											
Year on year sales growth %											
YTD v.s budget%											

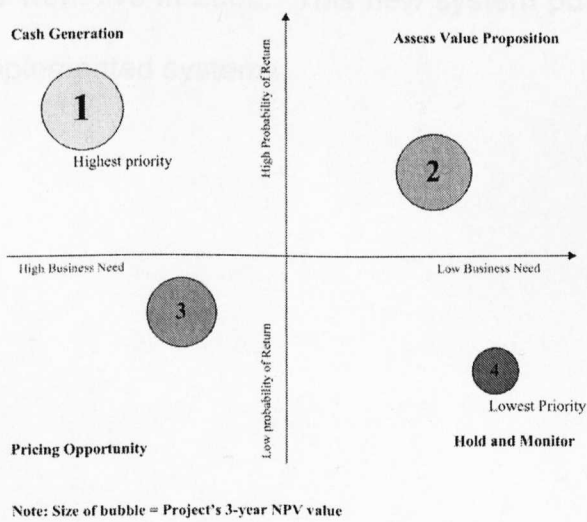
Source: Monthly IBP Report

To make more direct impact for the board, and to render the data more easily interpreted, finance also produced another chart to go along with the GEMM report. This chart was sometimes nicknamed by the directors as the ‘bubble chart’. The main purpose of this chart was to compare all the projects that were currently on board with a few key measures. As shown in the chart below, the sizes of the circles represented the NPV values of the projects. They were displayed in different quadrants which represented different levels

of probability of return. The big circles in the up-left quadrant represented high market return and high growth, they should be granted high-priority for execution. The small circles in high probability of return quadrant or big circles in low probability of return quadrant needed to be challenged in the meetings for further improvement or face possible halt. According to the finance manager, the idea of producing the ‘bubble chart’ was to make certain decision-sensitive information easy to grasp. In addition, the ‘bubble charts’ suited the tight time schedule of the senior management and helped make speedy assessments. As FM1 put it,

‘You know some people they don’t like to see numbers, so the charts might get more impact.’

Figure 7-7 Demonstration of Bubble Chart



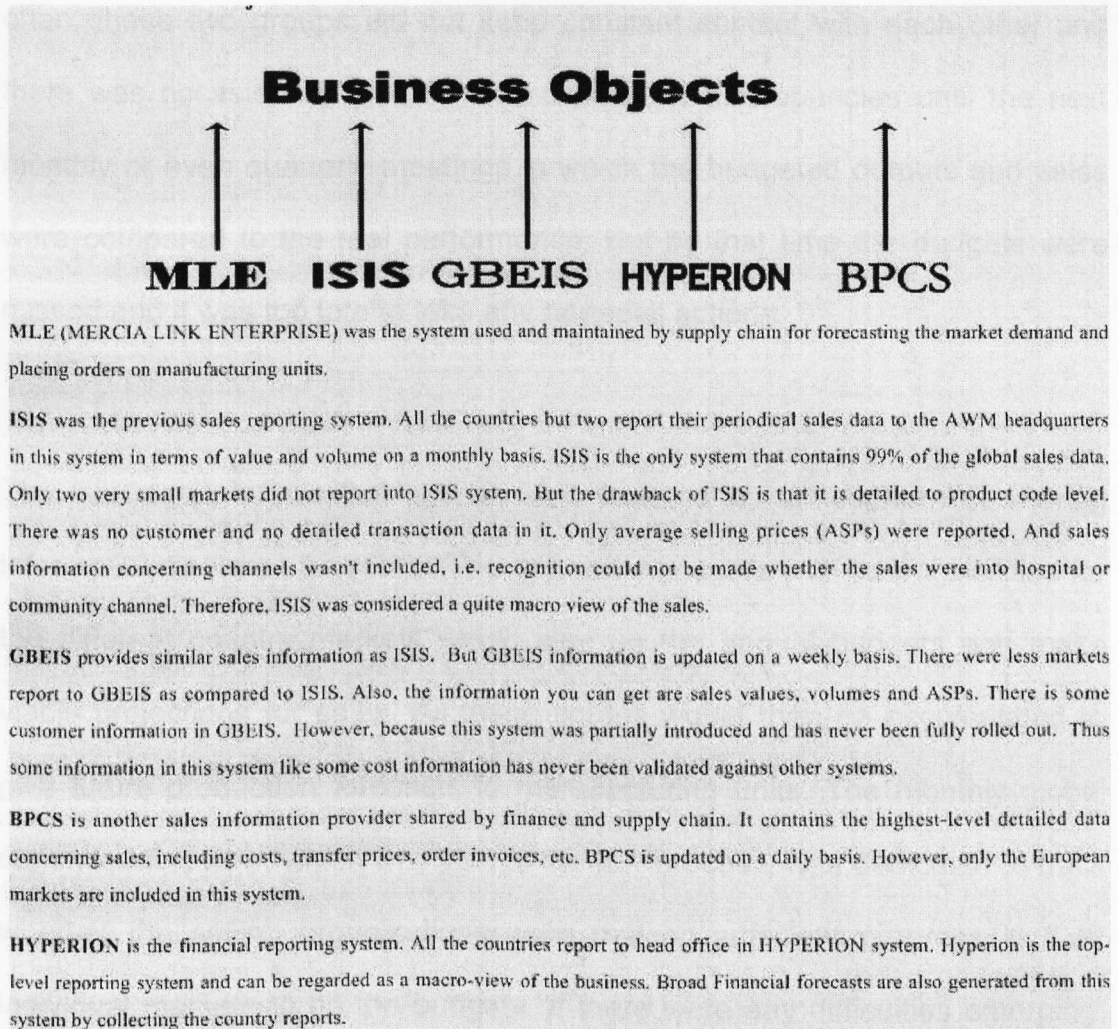
Source: Monthly IBP Report

7.4.2 New Sales Information System

The decision support role of finance was also reflected in the participation of accountants in the implementation of the new information system. A central information system was regarded as the 'backbone' of the IBP process. Accurate forecasting was the key to the successful functioning of the global supply chain that linked all the markets and manufacturing units. Forecasting and planning needed to be built on unified and accurate information. After IBP came into operation, the importance of bringing reliable sales information to all business areas was highlighted. To rectify the situation of segmented information sources, the finance function was commissioned to lead a special team to build a new sales information system, **business objects**.

Business Objects went live in 2005. This new system pulls data from 5 out of 14 previously implemented systems.

Figure 7-8 Business Objects



MLE (MERCIA LINK ENTERPRISE) was the system used and maintained by supply chain for forecasting the market demand and placing orders on manufacturing units.

ISIS was the previous sales reporting system. All the countries but two report their periodical sales data to the AWM headquarters in this system in terms of value and volume on a monthly basis. ISIS is the only system that contains 99% of the global sales data. Only two very small markets did not report into ISIS system. But the drawback of ISIS is that it is detailed to product code level. There was no customer and no detailed transaction data in it. Only average selling prices (ASPs) were reported. And sales information concerning channels wasn't included, i.e. recognition could not be made whether the sales were into hospital or community channel. Therefore, ISIS was considered a quite macro view of the sales.

GBEIS provides similar sales information as ISIS. But GBEIS information is updated on a weekly basis. There were less markets report to GBEIS as compared to ISIS. Also, the information you can get are sales values, volumes and ASPs. There is some customer information in GBEIS. However, because this system was partially introduced and has never been fully rolled out. Thus some information in this system like some cost information has never been validated against other systems.

BPCS is another sales information provider shared by finance and supply chain. It contains the highest-level detailed data concerning sales, including costs, transfer prices, order invoices, etc. BPCS is updated on a daily basis. However, only the European markets are included in this system.

HYPERION is the financial reporting system. All the countries report to head office in HYPERION system. Hyperion is the top-level reporting system and can be regarded as a macro-view of the business. Broad Financial forecasts are also generated from this system by collecting the country reports.

Source: *Business Objects User Guide*

Finance drew the information from HYPERION to provide the most detailed sales information, which included all the rebate and discount information. This data was then verified against ISIS and BPCS. For forecasting information, finance drew data from MLE.

Another visible improvement with this new system was that the forecast information could also be verified between HYPERION and MLE. While before, the sales managers in charge of different country markets sent in their

forecasts to MLE and finance sent in its own forecasts to HYPERION. Quite often, these two groups did not keep constant contact with each other and there was occasionally lack of reconciliation of discrepancies until the next monthly or even quarterly meetings in which the budgeted outputs and sales were compared to the real performance. But by that time the budgets were missed and it was too late to take any remedial actions.

The new sales information system also fostered an atmosphere of sharing information between functions. The general managers with responsibilities for the different country markets would sign up the annual budgets and make viable projections for sales. All these figures would then be accumulated to give future production forecasts to manufacturing units. The monthly global commercial review, which was part of the IBP process, was dedicated to track whether the selling organizations were making sufficient progress in their individual markets to hit the budgets. If there were any difficulties emerging, enquiries would be made at the meeting. For example, if the MLE reported a lower figure than the HYPERION, there was a danger that if the market forecast in Hyperion was accurate, then the orders placed on manufacturing sites via MLE would be short. In this process, the role played by management accountants was highlighted. If there was any discrepancy between these two systems, management accountants would investigate where the gap came from and propose solutions on how to close the gap. This could be either getting more sales to match the high-end production predictions, or enlarging manufacturing volume to match the high-end sales predictions. This would trigger a thorough reconciliation; and management accountants would

take the lead in evaluating the available options and trade-offs, and make sure that a final solution was reached with mutual acceptance.

'That's how we work now. We always had a forecast that made the factories produce whatever comes from the sales projection that goes on a number of months. I mean, that's always been there, it's just that I don't think anybody ever made sure all the bits fit. When we had a gap, what do we do about it?' – FM1

FM2 stated that the 'business objects' project was not only about data validation. More importantly, it was about understanding people's data requirements in different business areas. Therefore, finance mobilized intensive training to make sure this new system was accepted as a new way of working. This new way of working effectively challenged the image of management accountants as the 'bean-counter', which stereotyped accountants being people who were single-mindedly preoccupied with precision and form, rather than content. (Bougen, 1994; Friedman et al, 1997) The term 'bean-counter' is used negatively to describe accountants who have no understanding for the business and could only perform a mechanical process divorced from business reality, and 'as a result, the production of financial information had become an end in itself' (Friedman and Lyne, 1997, p.20). In this case, it was observed that the implementation and use of this new information system had effectively dispelled this bean-counter orientation.

Accounting expertise was employed to integrate previously scattered information. This facilitated effective cross-functional communication.

7.4.3 Commercial Cooperation

The cooperation between finance and other functions had also been largely reshaped by IBP. A new role of brand accountant was created as finance identified the need to strengthen its support on marketing operations. Brand accountants offered marketing teams dedicated contacts in finance. Previously, some of the projections produced by marketing for investment were seen as implausible by senior management. For example, the financial director expressed concerns, in many previous occasions, that marketing plans and brand promotions were '*too good to be true*' and the financial impacts '*can not be right*'.

Brand accountants are there to help the marketing teams with a series of operations that were historically regarded as being 'unsatisfactorily conducted'. These include product pricelists, profitability analysis, business growth projection, etc. Adding brand accountants into the marketing teams have 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. -FD

The finance director believed that close day-to-day contact between marketing and accounting was 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, you 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 pick up the phone, I think because they spend a fair bit time here, the relationship is built up, and most of 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

Brand P&L report was a new creation led by the brand accountants. In this new monthly report format, the brand accountant helped the marketing team to look ahead 2-3 years for analysis of future trends. In the brand P & L report, a number of future brand development initiatives were listed. These initiatives were categorized into portfolio, commercial, and supply chain, with their financial impact provided. All these initiatives were closely monitored and

constantly reviewed as they progressed. The brand P&L was aiming at bringing improvements to the projection of brand performance by focusing on all possible options. The analytical and interpretive skills of brand accountants had been drawn on to evaluate the investment impact and interpret the data on the Brand P&L reports.

Figure 7-9 Demonstration of Brand P&L for Brand A

	2006		2007		2008	
	Sales	Profit	Sales	Profit	Sales	Profit
Basic Estimates (\$m)	500	100	700	140	1000	200
Targets(\$m)	600	150	800	200	1200	300
Brand Improvement Initiatives Portfolio						
Line extension	+50	+33	+80	+50	+150	+75
Commercial						
Sales representative increase in US	+10	+1	+10	+3	+20	+10
Promotion campaign in Japan	+15	+2	-	-	-	-
Promotion campaign in US	+25	+2			+30	+15
Supply Chain						
New distribution centre in LA	-	+2	-	+4		+5
New logistic partnering with DHP	-	+5	-	+5		+5

Source: Monthly IBP Report

7.5 Summary

In AWM, management accounting operations have changed. The management accountants were successful in blending into a new decision-making and commercial support role. The finance function had gradually taken on the ‘internal consulting’ or ‘business strategist’ activities (Fern and Tipgos,1988). It was transformed from a traditional monitoring and control perspective, to a more business and support-oriented perspective. Significant publications (e.g. Kaplan, 1996; Cooper, 1996, Coad, 1999) have argued that management accountants need to become proactive internal business

consultants and be eager to get involved in business decision processes. AWM's experience also offered some promising ideas on the patterns and behaviours necessary for management accountants to fulfil these new expectations.

The new roles finance had taken on in AWM were largely driven by a major organizational restructuring program (IBP). As argued by many previous publications (*Scapens and Roberts, 1993; Burns and Vaivio, 2001; Burns and Baldvinsdottir, 2005*), the evolution in the finance regime has its roots in organizational contexts. However, comparatively little research attention has been given to understanding the processes through which these new management accounting practices have emerged. In this chapter, details about the progress of finance from conventional to strategic in AWM have been elaborated as it will only be through actual studies of the historical evolution process, can a comprehensive understanding of the current situation be achieved (Burns and Scapens, 2000).

IBP has proven to be critical in promoting cross-functional cooperation and accentuating the part played by management accountants. Before the IBP was initiated, the management accounting operations in AWM were highly financially-orientated. These old operations were related to the previous regional structure. IBP imposed formalized integration meetings to sanction business initiatives, in which teams were assembled with participants from different disciplines. New reports had been created to support the IBP decision process. Management accountants had ever since been engaged in

closer cooperation with other functions. The new reports produced by the accounting department have gained management accounting a position of contributing objective information to raise awareness within ongoing business projects. The cooperation between finance and other business functions had been improved. Accountants had dispelled their 'bean-counting' image in this company.

The new way of management accounting work (i.e. new reports and brand accounting practice) exhibited SMA characteristics. SMA emphasizes competitor-focus and long-term orientation. These features were embraced in the new way of management accounting working. In contrast to the traditionally held view of being 'bean-counters', management accountants actively involved themselves in many innovative activities (Bhimani and Keshtvarz, 1999), such as strategic performance measurement, competitive market analysis, system design, and strategy assessment. Simmonds (1997) argues that extending management accounting's matrix beyond their conventional internal and financial domain can strengthen appraisals of competitor strategy so as to raise awareness of competition and obtain competitive advantage. In all the new reports produced by finance, there were not only conventional financial '*snapshots*' to demonstrate the financial impact of different projects, but more importantly the indicators of operational concerns and strategic priorities, such as brand performance, supply chain issues, customer service, etc. In addition, new criteria used in sanctioning business cases were very comprehensive. Long-term impacts were stressed instead of immediate influences on the short-term P&L accounts. The new

finance function has embraced more non-financial measures to reflect the real needs of the business.

Chapter 8 Case Analysis I -SMA in practice

8.1 Introduction

In this chapter, the status of the SMA practices employed in both case companies is discussed. Attention is also paid to the involvement of management accountants in the strategic management process in both companies. Findings from the two case companies' SMA employment are valuable in offering insights on the first two research objectives, e.g. the extent of SMA adoption and perceived value of SMA practices. The third research objective, the process of SMA adoption, is addressed in the next chapter.

This chapter is organized into four sections, the first section is devoted to the analysis of the adoption and utilization of SMA practices in both case companies. The second section pays attention to the perceived values attached to different SMA practices. The third section focuses on examining the involvement of management accountants in SMA practices in both case companies. Finally, a summary is presented.

8.2 The adoption and utilization of SMA practices

As reflected in the case studies, there are a series of innovative SMA practices adopted in both companies. In ULE, these include brand profitability benchmarking, shadow costing, brand loyalty pyramid, and customer

segmentation. In Meditech there are decision tool, rolling forecast, General Executive Management Measures (GEMM), and Brand P&L, to list only some of the practices. From a design characteristic point of view, these new SMA practices show greater diversification in both scope and system dimensions¹³ (Bjornenak & Olson, 1999) when compared to the conventional management accounting techniques.

From the scope point of view, these new SMA practices identify the need to describe more objects and extend the measurement boundary beyond the organization itself - measures of customers, competitors, distribution channels, brands, and market segments are systematically recorded and included in new forms of management reports. As many of the objects described are of wider business concern, there is also an observable trend of using more and more non-financial measures in supplementing conventional financial measures.

From the system point of view, the adoption of these new SMA practices challenges the conventional wisdom of 'one management accounting system for different purposes'. The traditional management accounting operations are seen largely as centralized systems which focus on vertical reporting of cost information using one integrated system without identifying the different information needs of different organizational users. The new management accounting systems, as observed in both companies, shows that

¹³ The scope dimension takes into account what should be accounted for and for what period of time; the system dimension focuses on the link between the users of the system and the design of the system, i.e. whether the management accounting model explicitly takes into account of the user of the model and his/her information needs (pp.328, Bjørnenak and Olson, 1999).

management accounting has adapted to the idea that different organizational contexts have different criteria of information relevance. There are different systems dedicated to different purposes. As observed in both companies, different elements of management accounting work, such as the routine management reporting, the corporate finance, and the strategic decision-making, are largely separated and managed by different teams of management accountants.

The questionnaire survey analysis has categorized the various SMA practices into three functional groups: strategic costing and pricing, competitor accounting, and customer accounting. Below, the SMA practices in the case companies are analyzed on the basis of this categorization.

8.2.1 Strategic Costing and Pricing - Shadow costing, Brand P&L, and rolling forecast

Strategic costing and pricing practices have been widely applied by both case companies. Shadow Costing from ULE and Brand P&L and Rolling Forecast from Meditech all show orientation towards pricing and costing operations.

Shadow costing (See Figure 6-9) focuses on brand pricing in relation to the competition. In this model, pricing decisions are informed by gathering the intelligence from different functions. Reasonable estimates of the costs of material, processing, distribution, etc are made for both a business and its main competitors. The subsequent pricing decision is reached with greater

awareness of the competitor's 'bottom line'. Therefore, this practice embraces not only strategic costing and pricing, but also competitor cost assessment and performance appraisal. While such an evaluation of competitors' product costs might not be 100% accurate, it helps the business to respond swiftly to external competition and market changes. A clear shift in focus is shown in this costing framework compared to traditional management accounting's internal costing methods, as less importance is placed on costing accuracy than upon deriving insights that might inform future strategic activities or enhancement of the competitiveness (Simmonds, 1981, 1982).

Meditech's Brand P&L (See Figure 7-10) largely resembles an exercise in shadow costing as it offers clear indication of the brand's cost structure and profitability. An additional aspect of analysis which the Brand P&L incorporates is its explicit attention to the brand's future performance. In the Brand P&L, future brand improvement initiatives are categorized into three distinctive areas, namely, portfolio, commercial, and supply chain. All the improvement initiatives in these areas are closely monitored; and their financial impact on the brand's future cost, revenue, and profit are regularly evaluated.

On an initial investigation, the rolling forecast (See Figure 7-6) does not seem to incorporate any competition consideration. But since the rolling forecast is not produced for financial budgeting purposes, but for the prediction of the company's future development potential and estimation of the funding requirements, the projections made here are 'aspirational' in nature. Rolling

forecast in Meditech serves as a 'brainstorming' mechanism, which brings all the functions together to set best achievable future targets, which have their explicit rationale on beating competition in the medium to long-term. Finance can raise questions based on these projections, and mobilize cross-functional efforts to solve emerging problems, such as production capacity, distribution channel, pricing, and costing issues.

The strategic costing and pricing practices have been widely employed by both companies. This offers support for the high adoption rates of these practices shown in the survey results of this study. An additional insight brought by the case study is that all the costing and pricing practices also embrace competitor performance appraisal. This also offers support for the survey discovery that the two categories of SMA practices, strategic pricing and costing and competitor accounting, are significantly correlated in the survey results (see table 5-9). A possible explanation is that competitive consideration is regarded by the case companies as an undetachable part of the strategic costing and pricing practices. This fact reflects the complexity and multi-functionality of the organization's SMA practices: in contrast to the academic-promoted individual SMA techniques with clear-cut functional boundaries, the case companies' approach to the realization of certain objectives (such as forecasting, pricing, cost estimation, etc) shows an integration of several SMA practices. There is therefore an agreement with Alder (1999) that while many SMA practices have generally been developed and promoted in isolation from one another, there is growing evidence that their combined use may offer the potential of unlocking important synergies.

8.2.2 Competitor accounting – Decision tool, GEMM and profitability benchmarking

Past survey evidence (Guilding, 1999; Guilding, *et al*, 2000) has demonstrated higher competitor accounting usage than other SMA techniques. The survey results of this study also confirm this fact, as the scoring of the whole cluster of competitor accounting practices are noticeably higher than other groups of techniques. This finding is further supported by the case studies in that there is a range of SMA practices dedicated to competition focus in both case organizations. The 2005 survey also finds significant correlation between the participation of management accountants in strategic management and the adoption of competitor accounting practices. A possible explanation of this phenomenon is that the increasing demand on competitor analysis calls for the involvement of management accountants in strategic decision-making processes, and the accountants' skills of analysis are more and more relied upon here.

Meditech has two distinctive competitor analysis tools, namely, decision tool and GEMM measures. Both decision tool and GEMM measures adopt several Key Performance Indicators (KPIs) and rely heavily on financial measures. Many of these measures are 'conventional'. They can easily be found in financial reports. At the first sight, this might seem conventional and counter to the advocacy of 'non-financial measures' in complex operational environments (Ittner and Larcker 1998; Vaivio 1999; Said, Hassabelnaby et al. 2003). But the merit of using these publicly available measures is obvious

when they are used to make comparisons across the industry with competitor companies. These two tools show similarity with an approach of competitor performance appraisal, as advocated by Moon and Bates (1993), which includes monitoring trends in sales and profit levels as well as asset and liability movements. Moon and Bates claim that strategically significant insights can be derived from an appropriately conducted analysis of competitors' published statements. In addition, both tools are designed to meet the needs of the senior management with a broad view of the organisation-wide performance in comparison with the main rivals. The innovation of the 'bubble chart' (See Figure 7-8) is also important. It extracts the main indicators from the GEMM measures and presents them graphically. According to one financial manager of Meditech, the bubble chart has made certain decision-sensitive information easy to capture and helped the senior management focus attention and make rapid assessment and assimilation.

The profitability benchmarking adopted by ULE (See Figure 6-10) shows that the analysis of products should go beyond an internal and single brand perspective; comparisons with other brands, especially those in direct competition, should be presented to provide insight into the current performance of the brand in concern. Comparisons can also be made between different products within the same company to see where certain brands are not achieving expected results. This could help allocate scarce resources to the most profitable products.

8.2.3 Customer Accounting

Customer Profitability analysis has attracted research attention in recent years and many researchers propose that customer-focused measurement should become part of modern management accounting apparatus (Foster *et al*, 1996; Vaivio, 1999; Guilding, 2000) .

A new category of customer accounting techniques has been included in the questionnaire survey of this study. From the survey evidence gathered, customer profitability is among the most popularly adopted SMA practices. All three customer accounting techniques have also achieved higher merit scores than their usage scores. These signals indicate that customer accounting practices are being emphasized by the large UK companies. Case studies offer collaborative evidence that customer accounting practices have been highly developed in both case companies.

In ULE, the brand loyalty pyramid indication (See Figure 6-11) and customer segmentation (Figure 6-12) are representative of the customer accounting practices. The brand loyalty pyramid is a tool to measure the loyalty level of different customers to a brand. The success of marketing promotion is measured against how big a proportion of the customers are converted from low level loyalty to high level loyalty; this pyramid is an important measure of the relationship between the buyers and the brand.

Finance also assists the sales function to reinforce customer management effort by facilitating the operation of customer segmentation and by providing detailed customer profitability reports. Customer segmentation is a process that categorizes individual customer accounts into different groups on the basis of their commonalities. As the same products show different popularity and profitability on different customer accounts, ULE can make more informed decisions about how to adjust pricing, product mix, target customers and service based on the different customer demands across different categories — all with the goal of increasing overall profitability. Detailed customer profitability is reflected in two customer reports (See Figure 6-13 and 6-14). The reports to group meetings tend to be inclusive across all the brands and all the major customers accounts. The individual account profitability reports contain more operational details and serves as an attention-directing mechanism for future improvement effort in relation to the profitability enhancement of the brand in concern. Furthermore, the effect of marketing promotion is also examined and analyzed by accountants in ULE. Brand ROI (See Figure 6-16) examines the promotion effect on one brand across all individual customer accounts. The brand strength chart (See Figure 6-15) also brings competition into consideration. The strength of a brand is not only measured against the ability to attract customers, but also the ability to overtake competition.

In Meditech, less emphasis is applied to report customer profitability. The reason is partially because Meditech is mainly dealing with institutional buyers, such as hospitals and government buying agents. But this does mean there is

a lack of accounting support on customer management. As Meditech turns its focus on the capital equipment market, the sales negotiation is often held between sales people and the hospitals' financial managers. Therefore, the customer orientation from management accountants is manifested in the more comprehensive analysis that they offer to fit with this new sales agenda. Management accountants have put in more effort to help sales managers demonstrate how the products can offer more cost-effective solutions for healthcare providers.

8.2.4 Summary

Based on the observations of the SMA practices obtained from both case companies, the following main findings are distilled.

Comprehensive adoption of SMA practices has been found in both case companies. These practices show distinctive competitor-focus, customer-orientation and long-term strategic commitment. This trend tends to agree with Simmonds *et al* (1997) on the point that extending management accounting's matrix beyond their conventional internal and financial domain can strengthen appraisal of competitor strategy so as to raise awareness of competition and obtain competitive advantage. Additionally, in all the new reports produced by finance, there are not only conventional financial 'snapshots' to demonstrate the financial impacts on different projects, but more importantly the indication of operating concerns and strategic priorities, such as brand performance, supply chain issues, customer service ,etc. More

non-financial measures are incorporated to reflect the real needs of the business. Long-term impacts are stressed instead of immediate influences on short-term profit and cost. Thus, the new criteria used in judging business initiatives tend to be comprehensive.

Whilst many of the SMA techniques listed in the questionnaire can be seen to be implemented in both case companies, the term SMA itself is not widely appreciated among the personnel interviewed in either case company. This supports the questionnaire finding that SMA is not a widely accepted and used term. It also suggests that in the questionnaire even though companies give low ranking on certain techniques, they may be using them with different names without identifying with the terminology. Therefore, the real usage of the SMA techniques could be potentially higher than measured by the questionnaire. This fact is confirmed by the comments of interviewees from both companies. As the financial controller from Meditech stated,

'Let me just clarify a bit. We actually do what we think is appropriate for the business. We don't use these terms. Then when we look at the definition, we do them all the time. So do we make conscious decisions to apply these methodologies? NO, but do we apply certain methodological processes to certain projects we are looking at? Yes, we do.'

The Vice President of ULE finance academy also admitted that

'In the peer group we make, there is a pretty consistent story. 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 organizations at a point in time. But it's perfectly possible to trace a consistent story of what's happening to finance.'

These statements offer further evidence of the relatively low familiarity with the specific SMA terminology particularly among the practitioner accountants. But the rare use of SMA terminology does not conceal the fact that many innovative management accounting practices with SMA characteristics are undertaken. Their characteristics, such as market-orientation, competition-orientation, and future and long-term orientation are also highlighted by the case evidence. Therefore, an in-depth understanding of SMA practices requires the researcher to explore the organizational context and organizational language to reveal actual SMA utilization.

Finally, it is suggested the proper functioning of the SMA practices requires an 'integrating structure'. That is a mechanism which can effectively tie SMA practices to the general strategic management processes. In ULE, the promotion of most of the SMA practices is through the 'business partnering'

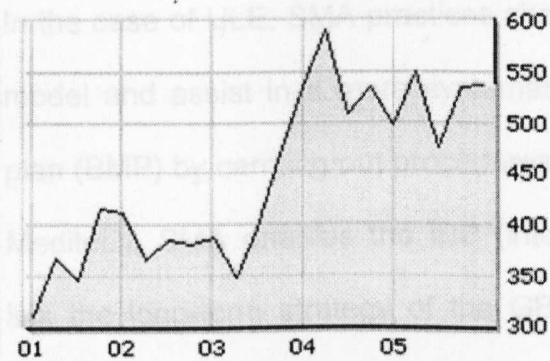
program as part of the 'finance of future' project. In Meditech, IBP (integrated business planning) brought these SMA practices into play. The researcher argues that the successful adoption of SMA practices in the case companies relied upon the establishment of these structures (e.g. BP in ULE and IBP in Meditech). This fact is closely related to the 'senior management support', which has been regarded as critical to SMA success by many researchers (Chenhall and Langfield-Smith, 1998b; Adler, et al, 2000). However, an integrating structure is more than senior management support. While senior management support is critical to promote organizational interests and mobilize resources for the adoption of SMA practices, an integrating structure calls for systematic efforts to encourage the use of the SMA practices and make cooperation between management accounting and other functional departments more effectively received by organizational actors.

8.3 Usefulness and perceived values of SMA practices

The senior management in both companies are very positive about the new way of working which exhibits SMA characteristics. When asked to what extent they think these new practices help the companies achieve better performance, Meditech refers to recent years' financial market performance, which has been shown to have more than doubled during the past 5 years (2001-2006, as shown in Figure 8-1 below). ULE believes the implementation of SMA practices has noticeably helped improve efficiency. According to the group internal statistics, ULE companies with 'business partnering' operations are growing faster than average: +2.5% vs. +0.2% average (Company memo).

Now, ULE gives annual ‘**Business Partnering in Action**’ awards to the best performing divisions globally to promote a series of SMA practices.

Figure 8-1 Meditech 5-year Financial Market Performance



Data Source : Financial Times 2006

Apart from these signals, at a more implicit level, both companies believe the SMA practices have brought new ways of working into their businesses, and these new ways of working are valuable in helping the organizations to realize their strategic objectives. The benefits of SMA practices in supporting the achievement of these objectives are manifested in two ways, better accountability of commercial and marketing activities and better cross-functional corporation.

The market- and competition-focus of the SMA practices has given the finance function an edge in strengthening the organizations’ marketing and commercial operations. Along with the process of organization-wide strategic change, both case companies faced increased challenges in their respective markets which imposed considerable pressure on their marketing operations.

ULE needed to strengthen its brand positioning relative to the competition and respond to the demands of various customers, especially the fast growing convenience sector. Meditech needed to balance its investment between traditional 'super brands' and new 'capital equipment' products.

In the case of ULE, SMA practices show strong support for the marketing '4P' model and assist in a more systematic examination of the brand marketing plan (BMP) by carrying out procedures of auditing, executing, and tracking. In Meditech, SMA enables the IBP (integrated business planning) to explicitly link the long-term strategy of the GBU and short-term operational goals of each individual department. The detailed project sanctioning procedure ensures a successful translation of the long-term strategic objectives into short-term, detailed action plans. Many SMA practices, such as Decision tool, Rolling forecast, and GEMM, are all tied closely into this process, in which marketing and commercial decisions play a big part. Meditech also employs 'brand accountants' to give dedicated support to brand teams in a wide range of marketing operations.

The incorporation of SMA practices into decision-making also facilitates a new way of communication, a new working language, between different functional departments. As companies emphasize more and more on cross-functional efforts to streamline supply chain performance and improve marketing promotion. It is highly desirable that this language comes into play in organizations. For example, the efficient functioning of operational units relies upon the knowledge of accurate prediction of market demand. Passing the

market information through from sales to operations in a timely manner calls for a common 'language' across the organization without barriers or delays. Another example is that new accounting practices can also help to unify the views of different functions. One marketing manager in ULE observed that there were many occasions when accounting played the role of peace maker when there were conflicting interests between marketing and sales due to their different views on a brand's future performance. With the involvement of accounting business partners and the employment of SMA techniques, more 'hard data' is provided to facilitate judgment and reach new solutions based on the facts agreed by all the parties. Thus, with the involvement of management accounting, brand and customer development activities were rationalized in more objective terms, (Robson, 1992), new organizational dependencies were established, and new forms of management were applied (Miller, 1994). Ultimately, important modes of organizational action become affected.

'Quite often, the messages from finance does get a bit of extra authenticity, because the finance people are seen as honest brokers , talk about sales and marketing people clashing, we try to be peacemakers in the middle of that'-FM1 from ULE

Generally speaking, the new SMA practices in both companies have enabled management accounting to gain a more respectable position of contributing objective information to help raise awareness on ongoing business projects and promote long-term company strategies. Overall, accountants are more involved in decision-making processes, and a good learning experience has

been shared by accounting and non-accounting departments. Management accountants are getting a better understanding of the business operations; this in turn helps them to undertake more reasonable planning and budgeting to support business operations. The performance measurement adopted is also getting more comprehensive rather than emphasizing rigid financial figures. Therefore, with the assistance of the SMA practices, finance has taken on a strategic-orientated role to support the decision-making process and assist organizations to proceed towards their long-term objectives.

8.4 The involvement of management accountants

The questionnaire responses indicated a significant correlation between competitive strategy and the involvement of management accountants. This is further confirmed from the case evidence. In contrast to the traditionally held view of management accountants being 'bean-counters' (Bougen,1994; Friedman and Lyne,1997), management accountants in both companies actively involved themselves in many innovative activities which have a clear strategic orientation, such as strategic performance measurement, competitive market analysis, and strategy assessment. The two case studies illustrate a change in the way management accounting job content is defined, from a traditional monitoring and control perspective, to a more business and support-oriented perspective. Recent publications (e.g. Kaplan, 1995; Cooper, 1996, Coad, 1999) have argued that management accountants need to become proactive internal business consultants and be eager to get involved in business decision processes. But, there is a lack of indication of

the patterns and behaviours necessary for management accountants to fulfil these expectations. These two case studies shed light on how these behaviours may be encouraged and realized from several aspects.

Firstly, increasing financial awareness of executives across a wide range of different organizational functions is regarded as being of increasing importance. The drive to make managers more accountable for the costs for which they are responsible has been receiving more and more emphasis in recent accounting publications. Burns and Yazdifar (2001) commented that *'the threat posed by business managers with a modicum of finance and accounting acumen is real.'* Measuring the effectiveness and efficiency of marketing and commercial activities has long been recognized as an important but challenging task for accountants (Foster, *et al*, 1996). In both case companies, the wider involvement of management accountants in a range of business operations has helped instil financial awareness into marketing and commercial activities. The involvement of management accountants offered substantial help in assisting marketing and commercial managers better understand how their decisions affect the business in terms of financial impact.

Secondly, there are changes in the way management accounting work is organized. Both companies now use centralized and smaller-sized teams dealing with financial reporting. Many routine transactional processes are outsourced. In place, more management accountants dedicate themselves to data analysis and decision support. The finance function has gradually taken

on the 'internal consulting' or 'business strategist' role(Fern and Tipgos,1988). This progress is best described by the Vice President of finance academy, ULE,

'to make this change happen, the key is to split things, giving the reporting to people who have nothing to do, but to do those things properly, only then can we get the concentration of the management accountants on the 'business partnering', that is the decision support and the performance management.'

Therefore, in ULE, a relatively small number of accountants remained in a considerably downsized team to deal with 'corporate finance' and 'routine reporting' tasks. The finance function in both case companies underwent significant change, both in overall size and structure. 'Hybrid' accountants (Caglio, 2003) were generally encouraged to undertake their duties outside of the finance function and become involved in the wider business environment.

Additionally, an atmosphere which can encourage the repositioning of management accountants is a necessity. In both cases, the business control systems in place proved critical in promoting cross-functional cooperation and accentuating the part played by management accountants. For example, before the IBP was initiated, the management accounting operations in Meditech were highly financially-orientated. The old management accounting operations originated in the previous regional structure. IBP imposed formalized integration meetings, in which teams were assembled with

participants from different disciplines to initiate, execute, and review business initiatives. New reports from finance were required to support the IBP decision process. Management accountants have since been engaged in closer cooperation with other functions. In ULE, before the launch of the 'business partnering' program, many valuable SMA concepts were poorly embedded in separate functional areas and insufficient attention was paid to them. Systematic effort by the finance academy (ULE) was applied to reorganize the use of these practices and refocus organizational attention on important strategic issues, especially in the area of customer management and competition monitoring.

Conventional accounting education and professionalization creates a 'bean-counting orientation'. Sangster (1996) suggests that this traditional role of accountants does not support a proactive orientation with regard to accounting change. Coad (1999) argues that for management accountants to cope with new job content, a learning attitude is vitally important. Those with a learning orientation are more likely to involve themselves in the decision processes of general management, and are more likely to initiate and actively implement change in management accounting systems. As a key to the success of SMA practices, management accountants need to become real partners in managing the business. Strategic involvement puts pressure on management accountants to take a holistic view of the business rather than staying at the superficial level of 'managing by numbers'. In both companies, managers interviewed revealed that, to make this work, a key was for management accountants to balance financial considerations with the

strategic concerns of the business. It requires management accountants to grow a broader understanding of the business. For instance, the implementation of new nonfinancial measures, such as market share, service quality, etc, is needed to supplement the traditional financial measures in evaluating marketing and commercial performance. Furthermore, Burns and Baldvinsdottir (2005) argue that decentralizing accountants into the business field demands an increase in their business-orientation. The research also reveals that the successful repositioning of management accountants requires them to work alongside other managers in cross-functional teams, rather than in an isolated accounting office. As business managers tend to evaluate the usefulness of accounting information in terms of how it can help them in relation to their specific responsibilities, the accountants need to be open to learning and listening without losing objectivity, and should actively contribute by introducing real insight and applying business judgment (Coad, 1996, 1999). Therefore, new interpersonal skills and general management competencies are needed for management accountants to fulfill this new role.

We have got to move away from that (score keeper); we have got to be very clearly involved in the business. Because if we don't understand what is going on in the business, we do not understand the challenges faced by production managers, by material managers, by a planner, by a QA (quality administration) person, then how can we provide them with information to do their job better.- Business Partner in ULE

8.5 Conclusion

This chapter has discussed the adoption of SMA practices, their perceived value and usefulness, and the involvement of management accountants in strategic management processes based on the evidence collected from the two case companies. It has been discussed against a background provided by the results of the questionnaire survey.

Concerning the employment of SMA practices, the evidence gathered from the case studies reveals that many strategic costing and pricing practices in organizations embrace the consideration of competitor performance appraisal. This confirmed the finding of the early questionnaire survey that competitor accounting techniques are significantly correlated with strategic pricing and costing. The case demonstrates that competitor accounting is popularly employed. The survey evidence also suggests increasing attention is paid to customer accounting practices. The case study evidence discloses that both case companies have placed considerable effort on implementing customer accounting techniques. The SMA terminology has not been widely adopted by organizational practitioners, but the adoption of a broad range of innovative management accounting practices with distinctive SMA characteristics has been observed through interviews in both case companies. Based on these above observations, it is perhaps the case that the real usage of SMA techniques in large UK companies could be potentially higher than measured by the questionnaire.

The adoption of SMA practices in the case companies has been facilitated largely by their different management systems (Business Partnering program in ULE and IBP in Meditech). This finding offers support to the observation of Bjørnenak and Olson (1999) who point out that the awareness of management accounting to the idea that different organizational contexts have different criteria of information relevance. For example, Meditech has placed great emphasis on competition and many of the innovative management accounting reports highlight the key measures of competitor performance evaluation; financial measures still play a big role here. ULE, on the other hand, has paid more attention to nonfinancial measures to offer indications of service quality and customer satisfaction to accommodate the new changes in customer requirements. Therefore, these new accounting practices include more situational factors which may influence the users of accounting information in dealing with the complexity of decision making process. This provides contrasting evidence to the 'conventional wisdom' of management accounting, which portrays the use of management accounting as *'based on an assumption about a rational decision maker in a very simple-minded decision making context'* (Bjørnenak and Olson, 1999, p.334). In other words, these new practices pay attention not only to the technical aspects (i.e. costing, pricing, performance evaluation, etc), but also take into consideration the organizational and institutional contexts, as their main emphases are largely defined by the organizations' strategic priorities.

The second section explores the usefulness of SMA practices in the case companies. Participants from both case companies appraise the benefits of

SMA from two respects. From a financial performance perspective, management in both companies believe the employment of SMA has brought better financial returns, such as improved financial performance and higher growth rate in terms of profitability and revenues when compared to their peer group. Management in both companies also believes the SMA practices make a valuable contribution in assisting them to achieve their strategic targets. These contributions are largely reflected in two aspects: better accountability of commercial and marketing activities and improved cross-functional corporation. Making management accounting more oriented towards the fundamental drivers of performance and has been called for by many researchers (Vaivio, 1999, Nanni, et al, 1990, 1992). There is an encouragement for accountants to adopt operational, often competitor- or customer- defined measures in assisting management of modern organizations (Kaplan, 1990). It is argued that SMA will change the conventional management accounting and bring accountants much closer to the complexities of everyday management with the advice of measures, both of financial and non-financial nature. In both case companies, management accounting is performing a 'rational' analysis (Vaivio, 1999) – an analysis that imposes more formal ways of seeing and reasoning operational activities, which were previously beyond the reach of management accounting concerns. These activities, such as market intelligence, customer and channel profitability, and service quality, are now systematically recorded by management accountants and analyzed under the leadership of management accountants. Although nonfinancial measures have been widely advocated, empirical research has provided little evidence on how these measures have

been operationalised (Said, et al, 2003), this case has offered some practical insights to fill this gap.

Finally, the third section discusses the role of management accountants in the context of these new SMA practices. In both companies, a close involvement of the management accountant in strategic management processes has been observed. This can be explained in two ways. First, the management put more and more emphasis on financial awareness to inform marketing and commercial decision-making. Secondly, the transformation of management accounting operations (transactional process outsourcing and automated internal and external reporting) offers accountants more liberty to go into business analysis and decision-support. Shank and Govindarajan (1988) have suggested that SMA will supplant managerial accounting for decision-making purposes. With the evidence uncovered from this study, the formation of a better positioning of management accountants in relation to its strategic importance has vindicated Shank and Govindarajan's prophesy.

Chapter 9 Case analysis II –The adoption of SMA practices

9.1 Introduction

The second stage of analysis of the two case studies continues with the premise that changes that happen in the business world take place as part of a complex and contextual process. Management accounting, as part of this, is affected by influences both external and internal to organizations (Guler et al, 2002). The neoinstitutional framework posits that environmental factors which are external to organizations are important in the introduction of innovations into organizations; whereas the intra-organizational influences encourage or impede the acceptance of these innovations. This chapter involves a close examination of the evolution process of SMA practices in both case companies to enrich our understanding of SMA practices in relation to management accounting change.

The interpretation of the adoption processes of the SMA practices in both case companies forms the main body of this chapter. So far, a substantial body of accounting research has offered static evidence on the popularity of various SMA practices (the adoption status) and whether management accountants are playing strategic roles, etc. However, there is a lack of evidence on how the SMA practices have become adopted (or denied) by the organizations and the processes of these adoptions (or rejections). The two case studies shed light on the evolution processes of SMA practices and the

successful changes of management accounting towards a greater strategic orientation.

It has been argued that SMA practices are influenced by many factors at both macro-level (government regulations, professional bodies, etc) and micro-level (organizational culture, management interests, power balances, etc). As sociological matters only take on meanings in specific organizational contexts, detailed examination of the SMA practices, in relation to the organizational contexts is one valuable but often overlooked area in SMA research. Below is the detailed examination of both the organizational contexts (external environments) and organizational actions (Intraorganizational dynamics) in the two case companies in which the SMA development took place. Neoinstitutional theory (Powell, 1991; Greenwood and Hinings, 1993, 1996) is employed here to facilitate a systematic examination of the evolution process of the SMA adoption.

9.2 External Environment

There are arguments that accounting systems need to change in order to keep pace with other trends in development external to organizations (such as advances in information technology, more competitive markets, different organizational structures, new customer requirements etc) to maintain its credibility (Ezzamel ,1993,1996; Granlund and Lukka,2002). The model of institutional isomorphism (DiMaggio and Powell, 1983) is applied as the primary means to structure the analysis of external institutional environments.

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

Granlund and Lukka (1998) hold the view that in the analysis of modern organizations both competitive (economic) and institutional pressures have an important role to play. Because, *'while economic fundamentals are important factors in firms, they do not always offer a sufficient explanation for organizational behaviour (p.158)'*. The management accounting change which involves the adoption of SMA practices is simultaneously influenced by competitive pressures, as well as coercive, mimetic and normative pressures (e.g. DiMaggio and Powell, 1983, 1991). Investors, customers and competitors all exert their various influences on the forms that the organizations' management accounting practices assume. These influences are interrelated as the evidence from the two cases will show.

9.2.1 Competitive pressure

In both cases, it appears that the competitive (economic) pressure is the main trigger for the adoption of SMA practices. The intensified competition experienced by many companies has been argued by many management accounting researchers to be a major driver of management accounting change (Abernathy, Clark et al. 1981; Dent 1996; Hansen 1998; Hoque, Mia et al. 2001; Douglas 2002; Krishnan, Luft et al. 2002). Due to economic

reasons, in the presence of the market, management practices are adaptive to changes in their environments, though with varying degrees of responsiveness (Granlund and Lukka, 1998). In terms of the various competitive pressures faced by the two case companies, some of them are faced by both companies, examples include the market demands to reinforce the accountability of commercial activities and instill financial awareness into the minds of management in their daily decision-making. Other pressures are contextual, related only to the specific industry or market sector the company resides in. For example, Meditech faced challenges to improve efficiency in the new GBU structure in the context of its global strategy; it also needed to find its way around the new 'capital equipment' market, which imposed different requirements in terms of marketing promotion and sales negotiation. ULE wanted to improve overall performance and for sales to catch up with the rapid growth in the convenience sector in which it had been currently underperforming.

These new external conditions called for change of management accounting to embrace greater business considerations and provide an increased support to commercial operations. SMA seemed to offer meaningful solutions to respond to the market demands. Business-oriented management accounting practices and the use of nonfinancial measures have been achieving greater importance in assisting competitor performance appraisal, customer profitability analysis, etc (Granlund and Lukka, 1998). The emergence of SMA can be seen as a reaction to competitive pressures which have created needs for better performance monitoring, reinforced

accountability of marketing and commercial operations, and enhanced balancing of the short- and long-term perspectives in decision making.

9.2.2 Institutional pressures

Coercive pressure occurs when an organization adopts certain practices due to pressures exerted by those that the company depends on externally, such as the government, the financial market, etc. This kind of pressure reflects the enforcing regulative aspects of certain institutions (Granlund and Lukka, 1998). Coercive pressure is apparent in the ULE case. For instance, organizational investors respond favorably to more transparent and well-organized operations in ULE, especially regarding the traditional 'intangible' areas, such as marketing, promotion, and customer management. This in turn calls for better management of these areas by enhancing their financial accountability. As the CFO commented,

"We believe that investors reward companies that have a disciplined approach toward marketing investment and a focus on innovation to drive category growth."

There is another type of **coercive pressure** on management accounting practices which often relates to corporate dependency (Oliver, 1990, 1991). This pressure normally results from other organizations upon which the particular company is dependent (DiMaggio and Powell, 1983). For example, powerful companies might require their suppliers to follow certain standard

operational procedures. For example, Tesco is one of the most important accounts of ULE. In recent years, Tesco has established 'scoring systems' to monitor the 'quality' and reliability of their suppliers, ULE was, for instance, given a precise temporal 'window of arrival' for some deliveries. Physical delivery of ULE's products was to take place strictly, for example, between 6.30 pm and 8.00 pm every Monday. These deliveries were also tightly monitored by Tesco. Such customer demands need to be addressed in performance measures, and the adoption of non-financial KPIs becomes a necessity.

'Customers are increasingly requiring formal statements concerning service targets, quality standards, and health and safety practices. These are seen to be basic requirements before contracts can be entered into.'-sales manager

Coercive pressure derived from corporate dependency was also faced by Meditech. For the wounding healing sector, market demand had been growing increasingly in the innovative 'capital equipment' market. Because capital equipment is significantly more expensive than the traditional wound dressing, financial criteria became an important part of the sales dialogue. Sales people were therefore more involved in justifying and persuading the financial managers of large customer organizations (mainly institutional buyers, such as hospitals or local health trusts) to make purchase decisions. This required the sales people to understand financial impacts of the purchase and demonstrate how the purchases can contribute to more cost-

effective solutions for healthcare services. For instance, faster and improved healing to reduce hospital stays and rehabilitation time; or reduced number of products required for effective treatment.

Another institutional pressure is **mimetic pressure**. As competition is getting fiercer in the market place, big organizations are constantly 'in-fighting' with their rivals for market share and customers. Mimetic pressures suggest that companies, under conditions of uncertainty, tend to copy publicly known and appreciated models of operation from each other, especially from successful companies that have good reputation. (O'Neill, et al, 1998) Imitating others typically is an effective strategy for social conduct (DiMaggio and Powell, 1983).

Thus, imitating competitors' way-of-doing things is another channel for the diffusion of management accounting innovations. Both case companies show clear manifestation of this kind of imitation. As one finance manager, who is in charge of the training programs of 'business partnering' in ULE, commented.

"...more robust metrics (like ... brand profitability benchmarking ... customer segmentation...) must be adopted to provide more insights on return on advertising investment and customer profitability.... We think P&G (a competitor company) gets them."

This mimetic process is also facilitated by the involvement of the consulting industry. Consultants mediate the pressures of global change into their client companies by promoting the successful experiences in certain companies as responses to similar problems encountered by other companies (Granlund and Lukka, 1998). For instance, strengthening the marketing cost management and employing non-financial measures (especially Balanced Scorecard) are increasingly promoted by the management consultancy industry. In both case companies, it is observed that a close involvement of consultancy firms has influenced the choice of management accounting practices. In ULE, the 'Finance of Future' (FOF) strategy is co-designed with one leading consulting firm. In Meditech, the influence of consultancy has been even more far-reaching, its involvement can be seen from macro organizational-level structural transformation (from regional structure to GBU structure), to micro-level fine-tuning of internal operations (for example, the launch of the IBP program). The adoption of many SMA practices in both companies can be traced back to the suggestions from the consultancy industry.

9.2.3 Summary

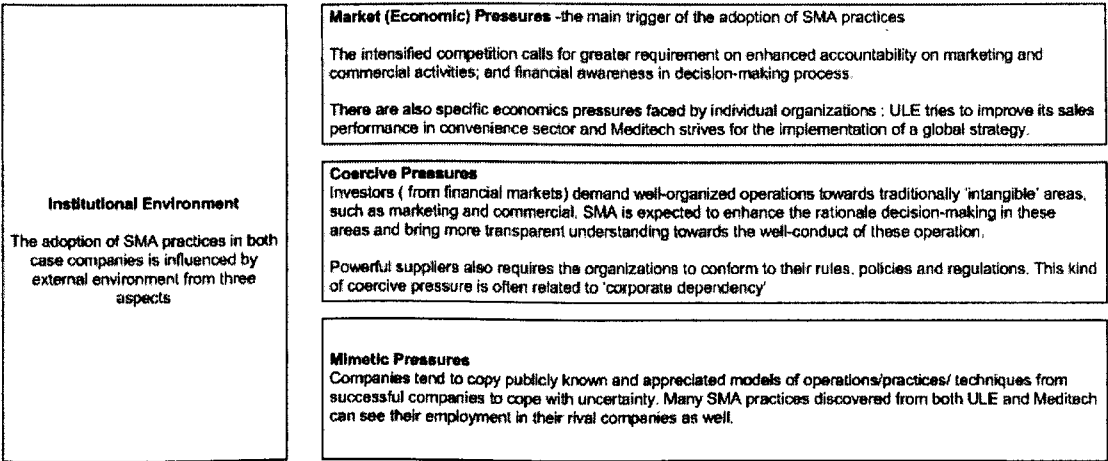
In summary, a neoinstitutional framework embraces both economic (market and competition pressure) and institutional perspectives. In examining the external institutional environment, the model of institutional isomorphism (DiMaggio and Powell, 1983) from institutional sociology is relied upon. It can be argued that competitive and institutional pressures direct the

organizations' efforts towards the adoption of many SMA practices. There are noticeably similar patterns of the diffusion of SMA practices in both case companies: the competitive (market) pressures generated an incentive for the firms to adopt more innovative SMA practices to help realize their respective strategic objectives, and the diffusion of various practices has been mainly through coercive and mimetic processes. A rich source of coercive pressures comes from corporate dependency. 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).

A large global consulting industry is propagating various 'solutions', many of which are closely related to management accounting operations (Granlund and Lukka, 1998). The consulting industry vigorously supports mimetic processes and the trend of isomorphism in general, as they promote similar ideas as responses to the competitive pressures faced by their client companies. This research finds evidence that there is a rather strong current tendency toward global homogenization of innovative management accounting practices. This study therefore support Granlund and Lukka (1998)'s observation that similar management accounting practices¹⁴ and the idea of business-oriented management accountants seem to be gaining an increasing foothold all over the industrialized world.

¹⁴ Granlund and Lukka (1998) have given a few examples which include total quality management (TQM), Just-in-time (JIT), life-cycle costing (LCC), Target Costing (TC), and balanced scorecard (BSC). Quite a few of these above have been included in the SMA practice pool in the previous SMA literature chapter as typical examples of SMA practices.

Figure 9-1 The External Influences Faced by Both Case Companies



9.3 The intraorganizational dynamics

Kaplan (1984) claimed that there is a strong cause-effect relationship between accounting change and its environment, implying that signals from the environment have to, and will change accounting. But despite an incentive for SMA adoption from external environments, there is plenty of evidence of intraorganizational resistance to the adoption of SMA practices (Malmi, 1997; Burns and Baldvinsdottir, 2005). Burns and Scapens (2000) argue that studying the processes of management accounting change requires a conceptualization of the ways in which new accounting practices evolve over time. However, comparatively little research attention has been given to understanding the processes through which new SMA practices emerge (or fail to emerge) through time.

Institutional researchers view the adoption of management accounting innovations by individual organizations as largely a political process which involves power, interests, etc. (Scapens, 1994; Burns and Baldvinsdottir, 2005). For instance, Granlund (2001) believes that the external institutional and economic factors do not offer sufficient explanation of management accounting change. The actions or characteristics of individual human beings play a significant role in the cumulative process of change or its denial. To date, very few attempts have been made to review the social dimension of the adoption of management accounting practices. Markus and Pfeffer (1983) and Argyris and Kaplan (1994) brought in power and politics around the adoption of Management Accounting Systems (MAS) in organizational settings. Scapens and Roberts (1993) described the resistance to accounting change as the consequence of failing to secure the legitimacy of a new system, coupled with problems in finding a workable language to communicate between operations and accounting. Malmi (1997) examined the limited use of ABC in a case study, and concluded with the proposition that the new visibilities generated by innovative management accounting practices foster resentment from the slack sub-units and arouse denials to their implementation. Therefore, in explaining the different change processes experienced by the case companies, the researcher of this study believes the social dimension is worthy of close examination, and the new insights captured are valuable in enriching our understanding of SMA adoption.

The detailed analysis of the accounting change processes in both case companies is presented below. The two companies demonstrate that the

social issues of interests and power brought their different routes to the adoption of SMA practices.

In ULE, the different perception of value that the accountants can make led to different attitudes towards the 'business partnering' program of different organizational functions. Marketing and sales have gone through different reactions to SMA adoption and implementation. See section 9.3.1 for details.

In the case of Meditech, social interests and power dependencies offered an explanation of why the accounting operations remained largely untackled when Meditech changed from the regional structure to GBU structure, and why SMA practices were systematically utilized when the new IBP came into operation. As will be elaborated in 9.3.2 below.

9.3.1 ULE

In the case of ULE, the external environment imposed great pressures on the organization to change its management accounting operations. But a distinct contrast was observed between the adoption processes of the BP program in marketing and sales. In order to explain this difference, the researcher argues that research attention needs to be focused upon the intraorganizational dynamics of how the interests and powers of organizational actors promote or impede the changes.

Blau's (1974) analysis of organizational structuring demonstrated that complex enterprises handle growth and/or contextual complexity by differentiation into groups, each of which is focused on specialized tasks. That is, the process of specialization leads to significant differences between groups in terms of structural arrangements and orientations. Greenwood and Hinings (1996) observed that functionally differentiated groups are not neutral and indifferent to other groups. One outcome of such intraorganizational differentiation is that groups are always seeking to translate their interests into favourable allocation of scarce and valuable organizational resources. A potential pressure for change or inertia, therefore, is the extent to which groups are dissatisfied with how their interests are accommodated within an organization. A high measure of dissatisfaction becomes a pressure for change (Covalesski & Dirsmith, 1988; Greenwood and Hinings, 1996).

However, the neoinstitutional framework suggests that dissatisfaction does not provide direction for change. What is critically important in explaining the possibility of change is the pattern of value commitments of groups with different interests within organizations. Interests and value commitments have been described as '*discrete precipitators*' of pressure for change (p. 1036, Greenwood and Hinings, 1996).

In marketing, the value commitment towards the BP program could be described as 'reformative' as both marketing and finance favoured the proposed change to BP. To explain this formation of mutual interest and

hence the 'reformative' value commitment between finance and marketing, two facts need to be highlighted.

Firstly, the traditional 'commercial management' role in ULE fostered cooperation between finance and marketing. Several interviewees pointed out that because marketing decisions needed to be sanctioned by the commercial managers, the involvement of finance in marketing decision-making had been established from a very early stage. After a relatively long history of cooperation with the marketing function, accountants had formed a good understanding of marketing operations. The marketers also accepted the way of working alongside of accountants. Therefore, the mutual interest of finance and marketing had, to a large degree, been accommodated by the current orientation.

Second, the marketing function had been managed traditionally as a 'profit centre'. Marketing activities had long been regarded as investment decisions, the impacts of which were measured using financial criteria. Because of this arrangement, marketers showed a good degree of financial literacy and tended to resort to accountants for decision assistance. They valued accounting inputs as important elements to inform their decisions.

But the rollout of the BP program into the sales function was quite a different experience. Lawrence and Lorsch (1967) argue that technical and cognitive boundaries, existing between functionally different groups, can cause different ways of viewing the purposes of an organization. The interviewees revealed

that there were different opinions regarding how the work of the sales function should be conducted. Before the rollout of the BP program, the sales function was managed by finance as a 'cost centre'. As a result, the control tended to rely purely on financial data and remained somewhat distant from the real commercial operations.

Sales managers however, stressed the importance of their practical knowledge formed from day-to-day business practices and understanding of intrinsic market conventions. Therefore, sales managers held a skeptical attitude in relation to the contributions that accountants could make to benefit their customer management activities. Furthermore, sales managers also tended to overlook the importance of organizational planning activities. For example, they were reluctant to cooperate with other supporting functions on sharing market and customer information. There was also a visible short-termism displayed by sales in their day-to-day management of sales actions, which were characterised by '*solving the problems at the last minute*' (PL). This mode of sales management caused a series of negative consequences, such as lack of communication and minimal internal co-ordination. Other functional managers were typically only involved when acute and pressing operational problems surfaced. These conflicts between sales and other functions were especially visible as they tried to blame one another for not taking full responsibility.

Due to these conflicts of interest and distrust, the value commitment towards the proposed BP program being rolled out into sales could be best described as 'competitive'. The sales managers were not happy with the idea of having

'interventions' from finance, which they instinctively regarded as rigid and distant from their daily practices. But the central management demanded objective measures on the quality of customer service and a fair distribution of responsibilities between functional areas for meeting customer requirements. For instance, the senior management emphasized that systematic rather than '*ad hoc*' analyses were required to ensure the management had consistent measures for assessment of sales performance. The BP program, in this situation, appealed to the interests of senior management. Other functional departments also welcomed the BP program as an effort to change '*how things had been done in sales*'. Here, we can see a link between value commitment and the external environment. As competition was getting more and more fierce in the market place, understanding of customer requirements became more and more critical. This situation encouraged the senior management to reinforce the accountability of customer management and commercial activities. In this way, market and institutional contexts interacted with interests and value commitments to create pressures for change.

In terms of the speed of change, Greenwood and Hinings (1996) suggest that a reformative commitment is more likely to be associated with revolutionary change because of the absence of resistance. In this sense, change is largely regarded as a systematic endeavour, which proceeds towards a well specified, explicit objective according to a preset scheme following agreed procedures. A competitive commitment, in contrast, is more likely to lead to evolutionary change in pacing as resistance occurs. This may include ambiguous goals, unforeseen incidents, and unwanted phases of development.

The dichotomy between the reformative and competitive commitment has proved insightful in this case. As the induction of new accounting partners into marketing, the implementation of more standardised marketing planning procedures (BMP), and the adoption of a series of SMA practices (Shadow Costing, Profitability Benchmarking, etc) had not been regarded by the marketers as significant deviations from the previous cooperative orientation but only as adjustments or 'fine-tuning' processes towards more standardized operations and enhanced cooperation. Little resistance emerged and a swift implementation ensued. In contrast, the experience of promoting SMA practices into the operations of customer management was different. Despite the push from the headquarters and the finance academy, the BP program still faced resistance until the value of accounting partnering gradually won over the confidence of the sales personnel.

Interests and values have been described as precipitators of potential change. But changes will occur only in conjunction with 'enabling factors', e.g. supportive power and sufficient 'capacity for action' (Greenwood and Hinings, 1996). In the case of ULE, the intraorganizational power dependency was straightforward compared to many published cases of management accounting failures (Malmi, 1997; Chenhall and Langfield-Smith, 1998a). The headquarters demanded the BP program to be rolled out to the marketing and sales. The headquarters also set deadlines to make sure the progress on the adoption of a set of centrally promoted new practices was on schedule. This case evidence supports the argument put forward by many accounting

researchers that many reported accounting changes are aborted because of the absence of the senior management's attention (Granlund, 2001). While many accounting innovations take a long time to show their positive effect on organizational performance, senior management's attention on accounting projects can be very short-lived and cause management accounting projects to be difficult to accomplish. For this reason, many survey studies listed the lack of senior management support as one of the most important reasons of accounting failure (Chenhall and Langfield-Smith, 1998a; Adler, et al, 2000). In this case, the finance academy from headquarters paid consistent attention to the 'business partnering' project. This involved reinforcing its importance by presenting compelling evidence of the contribution that BP can make and offering comprehensive training to facilitate its implementation. Therefore, the rolling-out of 'business partnering' was indeed a coherent and joint effort by headquarter management, finance academy, and local units. .

It has also been noted in several surveys that an impediment to implementing innovative management accounting systems is the prohibitive cost (Innes and Mitchell, 1995; Shields, 1995). This case offers support to many survey studies that a further reason for large firms being relatively high adopters of SMA practices is their relatively greater access to resources to experiment with administrative innovations. In this case, commitment had been made from board level to roll out the BP program globally and this had involved significant design and training effort from the headquarters' finance academy. To further motivate local implementation, there was an annual award for best BP practices among all the units worldwide.

The second enabling dynamic is capacity for action. This refers to the ability to manage the transition process from one template to another. Greenwood and Hinings (1996) explained that change would not occur without sufficient understanding in the organization of the new conceptual destination. Skills and competencies are also required for the organization to function in that new destination.

In ULE, the capacity to make the transition possible is identified in two respects. Firstly, the central finance academy has designed comprehensive models tailored to the needs of marketing and sales. The practices demonstrated earlier in chapter 6 are examples of the finance academy's design work, including shadow costing, quarterly tracker, and profitability benchmarking. Additionally, there are customer segmentation and customer ROI and margin measures to focus the sales attention on different customer accounts.

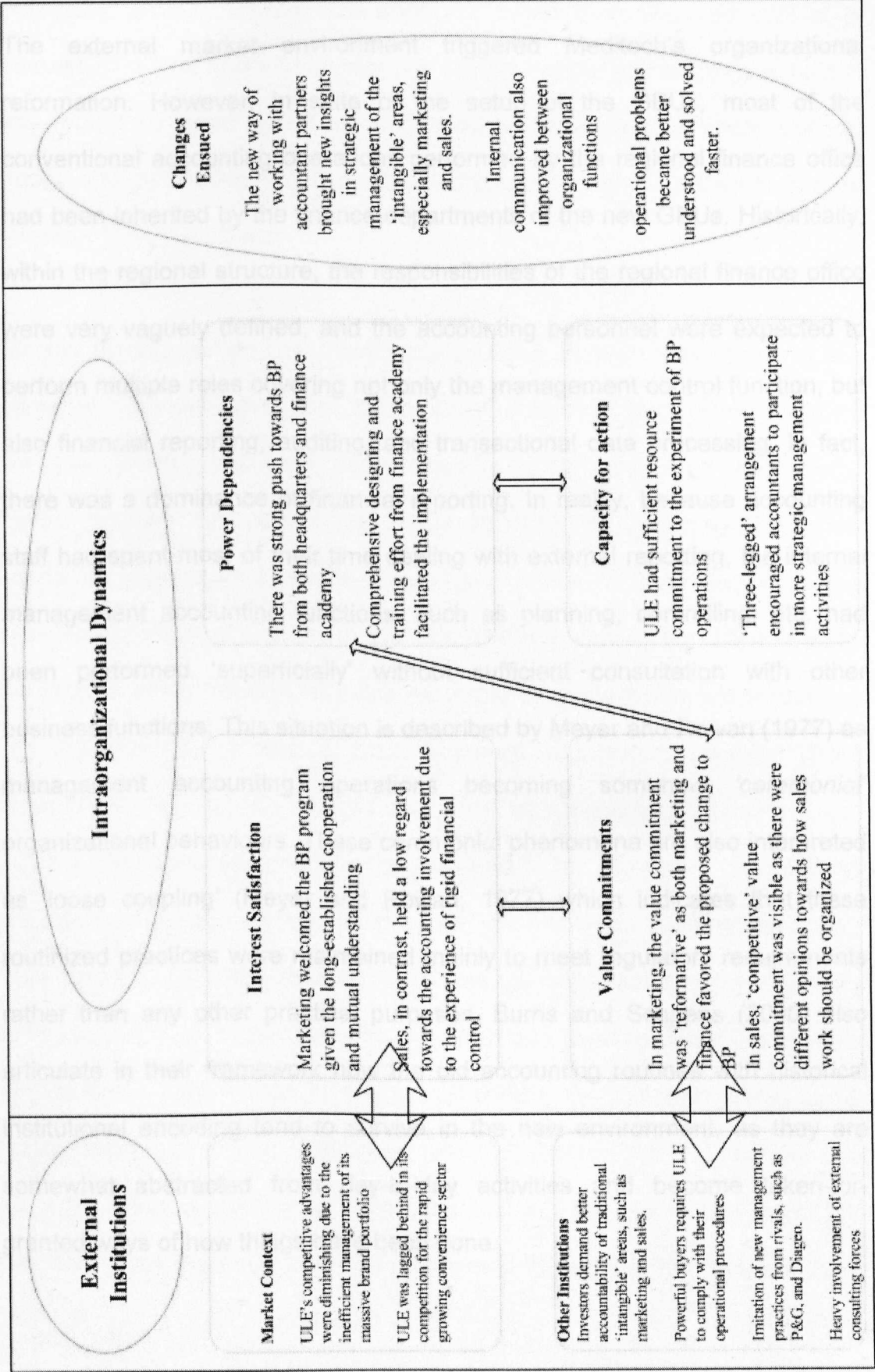
Secondly, apart from the central finance academy's design effort on the BP program, the reorientation of management accounting operations was also facilitated by the new 'three-legged' finance configuration. Traditionally, standard reporting procedures had taken most of accountants' time. Thus, it is not surprising that accountants had little time to participate in strategic management activities. Realizing this, the senior management, especially the financial director, centrally promoted the ideas that management accountants should be released from routine transactional recording and reporting

operations. The subsequent outsourcing of finance operations helped to free management accountants from dealing with labour-intensive transactional processes. As the Vice-President of finance academy pointed out, management accounting can make the greatest contribution by providing and interpreting data that the business needs to drive performance. Accounting partners therefore were expected to concentrate on analysis, on explicitly supporting top management decision making, and on developing new accounting procedures, instead of 'machine-cranking' or 'bean-counting'.

Finally, the 'business partnering' program was centrally initiated, and accountants' interactions with other functional managers were perceived as being authorized by senior management. The importance of senior management support for the adoption of management accounting innovations have been emphasized by many researchers (Campi, 1992; Keegen and Pesco, 1994, Malmi, 1997, Chenhall and Langfield-Smith, 1998a). But more importantly, accounting partners needed to build up a 'legitimate' profile rather than relying purely on their formal connection with senior management. In this case, after a period of scepticism, the sales managers gradually accepted this new way of working with accountant partners as they started to realize the value of the new insights brought in by this new partnering practice. New measures and analysis operationalised by the accountants facilitated a better understanding of the customers' different business models and helped sales make more effective negotiations. Internal communication was also improved with reinforced transparency of sales performance and sales people benefited from improved communication with other functions as operational problems

became understood better and solved faster. A shared view of accountants' constructive role was therefore formed and the involvement of management accounting was welcomed by the sales managers. This also offered support to Simmonds (1981)' founding thesis on SMA that management accountants were better placed than their colleagues in marketing to provide '*analysis of information on firm's product markets and competitors' costs and cost structure, and to monitor the enterprise's strategies and those of its competitors over a number of time periods*'(PP.26). These activities were regarded as the conventional strength of management accountants and critical in directing organizational actions. (Roslender, et al, 1995, 2003)

Figure 9-2 Neoinstitutional Analysis of ULE case study



9.3.2 Meditech

The external market environment triggered Meditech's organizational reformation. However, in spite of the setup of the GBUs, most of the conventional accounting operations performed by the regional finance office had been inherited by the finance departments of the new GBUs. Historically, within the regional structure, the responsibilities of the regional finance office were very vaguely defined, and the accounting personnel were expected to perform multiple roles covering not only the management control function, but also financial reporting, auditing, and transactional data processing. In fact, there was a dominance of financial reporting. In reality, because accounting staff had spent most of their time dealing with external reporting, the internal management accounting functions, such as planning, controlling, etc, had been performed 'superficially' without sufficient consultation with other business functions. This situation is described by Meyer and Rowan (1977) as management accounting operations becoming somehow '*ceremonial*' organizational behaviours. These ceremonial phenomena are also interpreted as 'loose coupling' (Meyer and Rowan, 1977) which indicates that these routinized practices were maintained mainly to meet regulatory requirements rather than any 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 become taken-for-granted ways of how things have been done.

Even though this old way of how management accounting was conducted was potentially institutionalized, this does not mean there was no conflict of interest. The tight and labour-intensive budget control procedure was held in low regard by other functional departments. Meanwhile, finance was not happy about the other functions' lack of financial acumen in their forecasts, investment proposals etc.

But the reason that no management accounting change materialized at this stage was mainly due to the status of 'value commitment', which could be best described by '*indifferent commitment*' (p.1035, Greenwood and Hinings, 1996), meaning that there were groups with different interests. They were neither for nor against particular changes, nor were they aware of any possible directions of change. In the case of AWM, with all the different tasks the finance office handled, the financial reporting was the most demanding and consequently prioritized task. Financial regulations imposed great pressures on accounting staff to deal with the 'period-end reporting rush'. 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 marginalized and there was lack of incentive for finance to get involved in operational details. On the other hand, since management accounting operations were operated only to sustain and legitimize a control role without getting in touch with the real functioning 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 of the management accounting operations.

'Value commitment' is defined by Greenwood and Hinings (1996) as the precipitating factor for organizational change. Dissatisfaction of interest does not provide direction for change, unless dissatisfied groups recognize the connection between the prevailing structure (which shapes the distribution of privilege and disadvantage) and their position of disadvantage. One of the crucial attributes of value commitment is that if it becomes taken for granted, it can serve to mute or temper expressions of dissatisfaction (p.1036, Greenwood and Hinings, 1996). That is to say, dissatisfied groups may not recognize that the prevailing structure is a cause of their disadvantage in this 'indifferent' value commitment status, even though there was rising divergent interests and rising dissatisfaction. Change will occur only if interests become associated with a competitive or reformative pattern of value commitment.

At this stage, the mutual lack of motivation related to management accounting change led to an *'indifferent commitment'* – management accounting carried on producing budgets that both management and other functions found of limited interest and use; marketing bypassed finance to apply for investment directly from the board. Segmented data systems continued to be used by different departments. And because the data used were rarely cross-validated, this had made the cross-departmental communication difficult,

What finally brought about management accounting change in Meditech was the subsequent implementation of IBP. As competitors started to introduce to the market innovative products, most of which were focused on the capital equipment sector, AWM's weakness on innovation and lack of coordination on brands was exposed. Interest dissatisfaction had grown in two ways. Firstly, there were conflicts between different brand teams as they were fighting over each other for resources. Secondly, the loose controls over the sales organizations in individual markets had negatively impacted the implementation of the global strategy. However, the earlier 'bean-counting orientation' of the management accounting and the rigid financial control over the global business had been regarded by the management as lack of sufficient business understanding by accountants and resulted in their being perceived as distant from helping solve these problems.

As pointed out above, changes will only happen when dissatisfied interest groups recognize the availability of alternative ways of organization in which they can better express their interests. Without the awareness of alternative structures, there would be no direction for potential change. In this case, the appointment of the new supply chain director from a leading fast-moving consumer goods (FMCG) company brought in the potential direction of change for management accounting. He detected a key issue, in that the accounting department was not fulfilling the planning and coordination duty satisfactorily. A consulting firm was also introduced to AWM by the new supply chain director to help redesign the planning system. Thus, by hiring key personnel from other institutional sectors, a new 'template' to new ways of

doing things were built into the organization. This corresponds to what Greenwood and Hinings (1996) observed as newly recruited employees being engaged to ostensibly introduce new practices into the organization, their experience of governing and organizing in fundamentally different ways was built into the organization and used to move the organization to a new template. This was so in Meditech in that the new supply chain director's previous experience in other organizations was able to introduce to this organization the awareness of a different '*template*' on how to organize strategic planning activities and the knowledge of how to operate such a template. The management accounting change was regarded by the supply chain director as an essential part of this template change process and gained support from the general management. In addition, the concern of the financial director about the marketing and commercial activities also provided him with a strong incentive to use management accounting to rectify the situation. Therefore, with deepened conflict of interest and the emergence of a new direction, the 'value commitment' gradually changed from the previous 'indifferent' to 'reformative', in which most of the functional groups were, to a certain degree, opposed to the status quo and preferred the articulated alternative.

Noticeably, there is a reciprocal relationship between power dependencies and value commitments. Positions of power can be used to buttress or abandon a prevailing organizational change (Covaleski & Dirsmith, 1988). Therefore, changes will not become possible unless those organizational actors in positions of power are in favour of the proposed change. In this case,

the new value commitment successfully won support in several respects. Firstly, 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. The involvement of finance started from the very early stage of the business cases all the way through to the final stage. Thus, to fulfil this new role successfully, finance was required to acquire broad business knowledge and know better about the different business projects, ranging from machinery purchase to advertising and promotion. Secondly, the financial director and the commercial financial controller have been 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 power shift. The concern from the financial director about the business report quality provided the incentive for him to use management accounting to improve the accountability of marketing operations. Traditional research widely recognizes 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 commercial controller in this case placed great emphasis on analysis rather than reporting, and on explicitly supporting top management decision making. For instance, the **decision tool** was managed under the direction of the AWM finance director. The **rolling forecast** was co-designed 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 concerns of future performance improvement.

'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. – Brand manager.

To further support the marketing operations, brand accountants were assigned to the brand teams. The move of adding the brand accountants into the commercial teams has proved to be successful. The accountants have effectively instilled financial awareness into the marketing and commercial operations. This helped improve the report quality and assisted communications across functions. As one brand accountant recalled,

'While before, you got business cases to the finance 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. –Brand Accountant

Generally, with the IBP in place and the cooperation from the financial director, management accounting change became feasible. Many interviewees confirmed that the push to get accounting people much more involved and understand what's *'going on in the business'* was very visible.

But it has also been pointed out in the neoinstitutional framework that 'capacity for action' is a necessity for organizations to realize the transition from one template to another. As Greenwood and Hinings (1996) point out *'change can not occur without... the organization having the skills and competencies required to function in the new destination (p.1040).* ' Therefore, to make management accounting change a successful transition, it requires finance to establish its legitimacy in the eyes of other functional groups. In this case, management accounting change can be seen as largely a centrally driven effort with top management playing a key role in promoting new management reports and cross-functional integration. But top-down effort alone does not guarantee successful implementation as Chenhall and Langfield-Smith (1998a) argue that heavy reliance by management accountants on the formal structure for their authority could become an impediment to their involvement in management activities. This would potentially strain the relationship between the accounting and operations (People feel obliged to take orders instead of wanting to participate). The success of change thus also depends on whether new management accounting practices can make realistic contributions to the organizations' strategic objectives. Scapens and Roberts (1993) noticed 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 operations and accounting. In Meditech, management accounting had played a supportive role in assisting decision-making commercial activities. Working language is built up gradually as accounting embraces greater market orientation and in the meantime, instills financial awareness in other managers to supplement marketing and commercial decision-making. Therefore, a shared understanding within the organizations of the constructive role that finance could play was recognized. 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 customers to make purchase decisions, based on better understanding and more comprehensive analysis of the financial impact and health economic effects of their products. Marketers have become used to the 'way of working' with accountants, and developed a high regard for brand accountants.

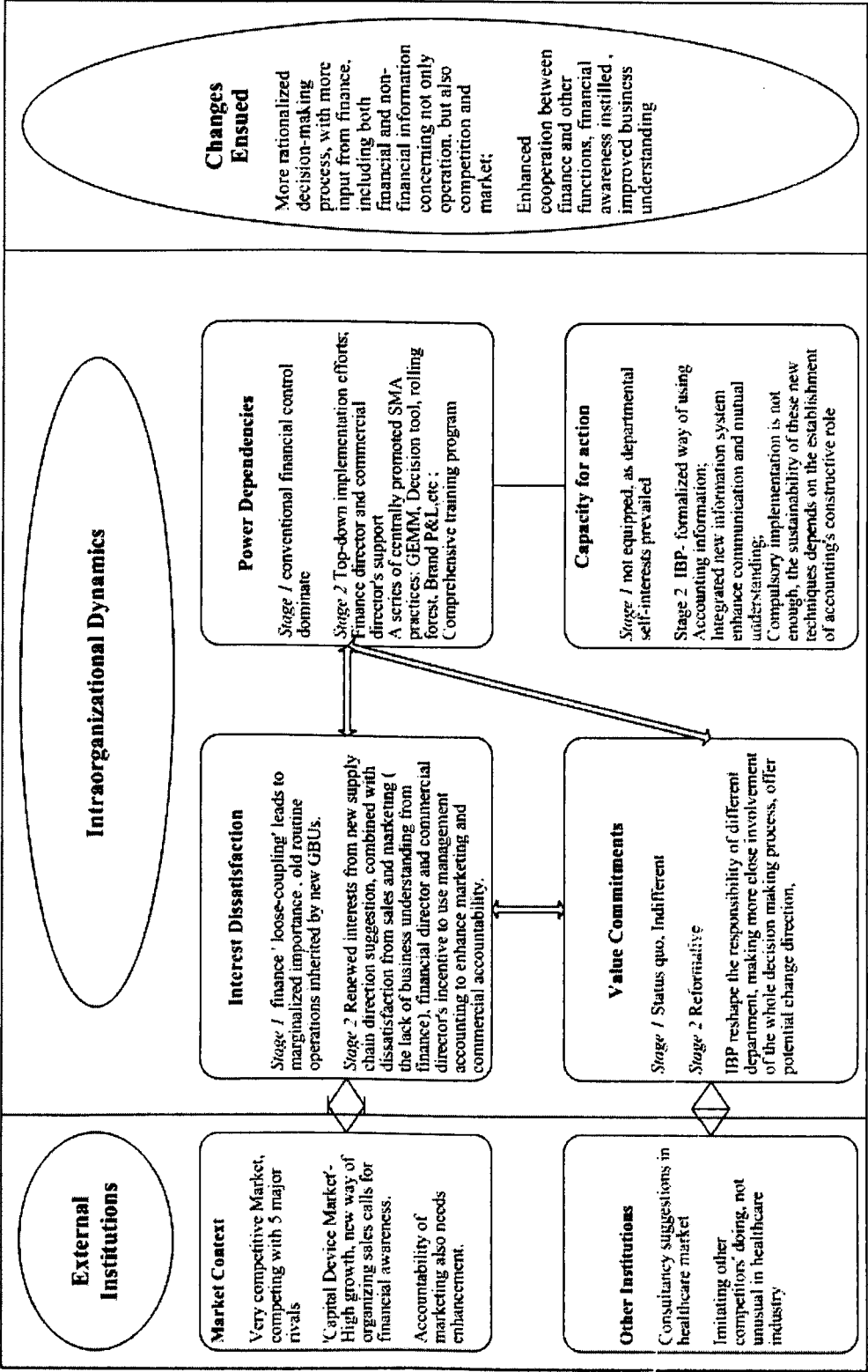
'I think what finance can do is they can ask very objective questions. You know, when we are pushing certain marketing campaigns that we are especially passionate about, the finance person can say, well you know, clarify to me the benefits, basing on a list of criteria, asking why you are doing it. Sometimes, 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.’ –Band 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 the 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

Figure 9-3 Neoinstitutional Analysis of Meditech case study



Adapted from Greenwood and Hinings (1996): Understanding radical organizational change: bringing together the old and the new institutionalism. P. 1034

9.4 Discussion

Low adoption rates of many SMA techniques have been reported in several surveys (for example, Chenhall and Langfield-Smith, 1998c; Guilding, et al, 2000). There are also a number of reported SMA failures in recent literature (Scapens and Roberts, 1993, Lord, 1996, Malmi, 1997). In explaining the reasons that cause the low popularity of SMA practices, a few studies focus on identifying factors which influence SMA success or failure. For example, Chenhall and Langfield-Smith (1998a) suggest that senior management support, well-developed technical and social skills, and the positioning of management accountants within the formal organizational hierarchy are all relevant to the successful implementation of accounting innovations. Adler et al (2000) identify that the cost of change, lack of relevant skills, and management inertia are the most widely perceived barriers to the implementation of SMA techniques. However, there are several major problems attached to this traditional approach of 'factor analysis' (Granlund, 2001, p.145) which relies heavily on contingency theory and quantitative research method. Firstly, there is hardly any limit to the number of possible factors affecting the SMA implementation and adoption. Secondly, it sometimes does not produce much that is new compared with what has been reported in a number of studies dealing with factors influencing information system implementation (Granlund, 1998). Thirdly, such factor explanations fail to capture the interrelationships between the factors and the inherent complexity originating in the different incentives and aspirations of the people involved with accounting practice (Scapens and Roberts, 1993). Therefore,

this approach fails to offer a systematic understanding of how the change initiatives form in the first place, how they become thwarted, and where the resistance (if there is any) comes from.

By adopting a neoinstitutional framework (Greenwood and Hinings, 1996), this study has achieved an analysis of greater depth, which is not simply to extract a set of generalisable factors, rather it is to *'amplify and to explain some of the social processes which were at work* (p.2.Scapens and Roberts, 1993). This study expands the scope of institutional investigation to the adoption of SMA practices in organizational settings. This approach complements the existing institutional perspectives on management accounting change, especially new institutional sociology (Granlund and Lukka, 1998) and old institutional economics (Burns and Scapens, 2000). The neoinstitutional framework adopted in this study has proved to be useful in offering a systematic way of examining the relevant factors concerning the SMA phenomena. Factors relevant to SMA adoption discussed in many previous studies, such as organizational power and interest issues, management support, competition and customer influences, etc, are effectively tied into this framework and categorized into different clusters.

The external environments of both case companies indicates strong demand for SMA practices due to competitive pressures, desire to imitate the successful experiences of major rivals, recommendations from consultancy partners, and conformative forces from several sources (financial markets, influential customers, etc). This finding supports Granlund and Lukka (1998)'s

statement that current management accounting practices are strongly framed and driven by factors at the macro level, at which various and considerable pressures of convergence currently are at work.

Similar influences from the external environment however, do not lead to a similar process of SMA adoption in the case companies. From the point of view of understanding change, neoinstitutional theory suggests that change is one of the dynamics of organizations as they struggle with differences of interest and value. Therefore, the final change outcomes are the results of internal battling between the different interests and the power that exists.

The main trigger for the adoption of SMA practices in both companies is the management's interests in using SMA to facilitate attainment of their strategic objectives. Both companies confirm that the rationale behind the adoption of certain SMA techniques is whether the techniques can help the organizations better deliver their organizational strategic targets. But the organizational strategic targets tend to be very specific and context-related, for instance, ULE has placed considerable effort on its brand development and customer management in order to outperform its peer group, while Meditech gives the greatest emphasis on consistent global operations. However, in the literature, most typologies of strategies ignore this complexity of context-related strategic pursuits. As observed in the two case companies, the SMA practices in ULE show highly dedicated support to mainly two functional areas: marketing and sales. While in Meditech, SMA techniques were mainly tailored for decision-making support with a full coverage of all operations. These two

case companies also show different approaches of SMA adoption. For instance, the promotion of SMA practices in ULE was largely through the accounting partners cooperating with marketing and sales. In Meditech, SMA practices are embraced as a part of the larger IBP implementation.

Therefore, it is argued that managers are most likely to turn to the SMA solutions that are regarded as most appealing to their specific organizational objectives, and the criteria of adopting certain SMA practices are whether the selected SMA practices can support the firms' specific strategic priorities. Some of the SMA practices in organizations can be regarded as cutting-edge, some are quite conventional, but the biggest reason is that they fit with the organizations' strategic agenda. This observation offers support to Wilson (1990)'s argument that management accounting operations should adopt a strategic approach that is proactive and designed to deal with each phase of strategic decision-making. If we adopt this practical view to examine various different SMA practices, it also explains some failed techniques in organizations. For example, marketing modelling from ULE was discarded because economic modelling was regarded by many accounting practitioners as too 'distant' from organizational practices. The fact that only the SMA practices that show high relevance to the organizations' strategic objectives are adopted helps to dispel the view held by some researchers that SMA is 'figment of academic imagination' (p.364, Lord, 1996) The evidence from the case studies suggests that organizations are not chasing and implementing innovative techniques in a 'faddish' manner (see for example, Tomkins and Carr ,1996), but applying these SMA practices as a response to the challenge

of managing in new environments which involve new organizational forms and new market conditions.

Regarding the implementation process of SMA, changes in both companies are largely a centrally driven effort. Here both organizations' top management plays a key role. They recognize the need to change, and subsequently planned, organized, and oversaw the changes. Other organizational agents are in a secondary position, assisting and implementing a centrally initiated, comprehensive top-down effort. This leads to another question raised by Malmi (1997) that relates to the positioning of management accountants within the formal organizational hierarchy. He posited that the reliance by management accountants on the top management and formal structure for their authority could become an impediment to their involvement in strategic management, as it would distance the relationship between the accounting and the operations (People feel obliged to take orders instead of wanting to participate). For instance, Scapens and Roberts (1993) reported in a case study that the failure to secure the legitimacy of a new accounting system is due to the inability to find a workable relationship between the languages of production and accounting. The success of SMA thus depends on whether SMA practices can make realistic contributions to the organizations and win the trust of other organizational stakeholders. In both case companies, SMA practices have played a constructive role in assisting decision-making and reinforcing the accountability of marketing and commercial activities. The successful experiences of how the intraorganizational dynamics are dealt with in the two case companies offers valuable insights into how impediments on

SMA practices might be overcome. In the two cases of this study, SMA practices have been successfully blended into the operations of other functions; most of them in marketing and commercial operations. Working language is built up gradually as accounting embraces greater market orientation and, in the meantime, instills financial awareness to supplement marketing and commercial decision-making.

In summary, the exploration of the sociological dimension of management accounting change has proved valuable. Both cases illustrate successful SMA roll-out. And they should not be dismissed as idiosyncratic. Both case studies shed light on how successful implementation of SMA practices have been conducted in real organizational settings, and how close involvement of management accountants on strategic issues is achieved. This provides contrasting evidence to many previously publications on management accounting's resistance to change (Argyris and Kaplan, 1994; Bromwich and Bhimani, 1994; Malmi, 1997).

Chapter 10 Conclusion, contributions, and limitations

10.1 Introduction

This chapter summarizes the findings of the study in light of the research objectives related to the results of the in-depth case studies of two large British Companies, in combination with a small-scale survey of 100 large UK companies.

The research interest in this topic area is derived from the literature review of SMA. As outlined in chapter 2, the literature discloses an ambiguous picture concerning the value of SMA practices. Whilst many SMA practices have been enthusiastically promoted by some academics and management consultants; there is evidence of some SMA implementation failures which imply possible organizational conflicts, ambiguity and resistance towards these new SMA practices. Some researchers reported low practitioner regard for the SMA practices and argued that SMA is but 'a figment of academic imagination' (Lord, 1996). One limitation of a majority of SMA studies conducted in the past was that they presented the adoption of accounting innovations as technical processes with little regard to how the accounting and other organizational operations change with the new emerging organizational situation. It is observed that as much as management accounting focuses on attaining economic efficiency, it is also used to legitimize particular forms of organizational activities and as a source of power for different interest groups within organizations (Scapens and Roberts, 1993;

Granlund, 2001). Many researchers (Burns and Scapens, 2000; Granlund, 1998) therefore argue that uses of accounting information are shaped by the organizational context in which they occur. In looking at accounting change, there is a need to look at the organizational context of change, i.e. whether and how organizational change influences the use of SMA practices, and how SMA practices are adopted to cope with different strategic objectives and environmental uncertainty faced by the organizations.

To offer better insights into SMA practices, this research had three major objectives, namely, to identify the current adoption status of SMA practices, to research the involvement of management accountants in the strategic management process, and to investigate the evolution of SMA practices in organizational settings. Therefore, this thesis aims at not only offering a current picture of SMA adoption across large UK companies, but also articulating the adoption process of SMA practices in organizational settings. In order to do so, the linkages between the adoption of SMA practices and its wider organizational context, i.e. the wider social and institutional forces within the organization and outside the organization, are explored.

Attention has been also drawn in this research to the conflict of different theoretical paradigms employed by SMA researchers. Chapter 3 sets out to examine the theories that convey different insights and ideas in guiding empirical research into SMA phenomena (both economic-based and social-based theories). Neoinstitutional framework (Powell and DiMaggio, 1991; Greenwood and Hinings, 1996) is used to offer an explanatory basis in this

study for an account of the organizational process of SMA adoption. The advance achieved in this neoinstitutional framework is that it addresses the interplay between organizational context and organizational reactions which are shaped largely by interests and power of organizational individuals. Organizations' responses to institutional pressures are no longer assumed to be invariably passive and conforming across all institutional conditions. Instead, how organizations respond to institutional pressures becomes a function of an '*internal dynamic*', which involve power and interests of organizational actors (pp.1024, Greenwood and Hinings, 1996). This framework facilitates a systematic examination of the SMA phenomena from both inside and outside of organizations, and offers important guidance to research design.

Chapter 4 introduces an interpretive research approach which integrates both quantitative and qualitative methods to facilitate the investigation of the SMA practices. Chapter 5 presents the findings of a small cross-sectional questionnaire survey which was conducted as the first step of this study. The survey serves the preliminary objective of answering the research question of the current situation of various SMA practices' adoption and perceived value amongst large British firms. This is compared and contrasted with the findings of earlier published research. The survey also provides valuable information for the further inductive research processes, i.e., in helping the gathering of ideas to guide further case studies. After the analysis of the survey, two case studies were carried out. Several inquiries generated from survey were further explored in the analysis of these case studies. Theoretically informed case

study research has been subject to numerous calls in management accounting research over recent decades (Atkinson, et al, 1998; Shields, 1997). This growing literature advocating the use of case studies is motivated largely by the quest for rich descriptions of accounting in action (Ahrens and Dent, 1998). Applied research of this type should focus on understanding the actual accounting problems and issues faced by the organizations and how SMA addresses these; and should not isolate the important economic, behavioural, organizational, and environmental factors that influence the adoption and perceived value of the SMA practices. To address these issues calls for this type of research. Chapter 6 and 7 provided a detailed account of two case studies. Subsequent case analysis was offered in chapter 8 and 9. The original data about both case companies was collected during a period of 2 years from 2005 to 2006, including empirical materials, such as interviews with key functional staff and documentary evidence. This data, combined with institutional analysis, provide more in-depth understanding of SMA practices and raise many interesting questions and ideas that deserve careful consideration in further SMA research.

10.2 Main findings of this study

There are several main findings that have been distilled from this study and they shed valuable light on the research objectives of this study.

Objective 1: What is the current situation of SMA development and implementation in large UK companies in general and case companies

in particular? How useful are they in helping organizations achieve their strategic objectives?

The survey evidence suggests that SMA practices experience widely ranging degrees of application. Competitor accounting practices, on average, show the highest usage by respondents from the large UK companies. Several strategic costing and pricing practices also achieve high rankings. Customer accounting practices, though with varying degrees of usage rates, appear to be gaining importance, with customer profitability analysis ranked among the highest applied SMA techniques. The survey evidence also demonstrates a continuing trend that most of the SMA practices receive merit scores higher than their corresponding usage scores. This again suggests that there is still scope for further SMA development and implementation in UK large companies (see also Guilding et al, 2000).

Both survey and case study evidence suggest that the use of the term SMA in organisations and that appreciation of the term amongst practicing accountants is still very limited. The findings also confirm the notion that SMA is not a popular term widely used in practice (Guilding, et al, 2000). However, case studies reveal that the real usage of the SMA techniques could be potentially higher than that measured by the questionnaire. As the case evidence not only confirms that competitor accounting and strategic costing practices are popularly employed, but also reveals significant application of customer accounting practices in both case companies, even though most of the customer accounting techniques are regarded as low in usage in survey

feedback. Therefore, compared to many reported failed attempts of management accounting going 'strategic', the SMA practices in both case companies are comprehensive and embedded in many functional areas, especially in marketing and commercial operations.

The case evidence also suggests that the adoption of SMA practices is shaped by the different organizational contexts in which they are employed. This development shows that management accounting has adapted to the idea that different organizational contexts have different criteria of information relevance, and thus has changed the view of how management accounting practices are being used (Bjørnenak and Olson, 1999). Some of the SMA practices in organizations can be regarded as modern and fashionable, some are quite conventional, but the biggest reason behind the adoption of certain SMA practices is whether they fit with the organizations' strategic agenda. The fact that only the SMA practices that show high relevance to the organizations' strategic objectives are adopted helps to dispel the view held by some researchers that SMA is 'figment of academic imagination' (p.364, Lord, 1996). The evidence from the case studies also suggests that organizations are not pursuing innovative techniques in a 'faddish' manner (see for example, Tomkins and Carr, 1996), but applying these SMA practices as a response to the challenges of new organizational forms and new market conditions. For instance, Meditech has placed great emphasis on competition and many of the innovative management accounting reports highlight the key measures of competitor performance evaluation, among which financial measures still play a big role. ULE has paid more attention to accommodate

changes in customer requirements, the measures adopted are indicators of service quality and customer satisfaction, and the importance of nonfinancial measures in this is highlighted. Therefore, when compared to the conventional wisdom, which portrays the use of management accounting '*in a very abstract sense, based on an assumption about a rational decision maker in a very simple-minded decision making context*' (pp.334, Bjornenak and Olson, 1999), these new practices embrace more situational factors and innovative measures which reflect the information needs for complex strategic decision-making.

This study also explores how SMA practices are valued in the organizations. Participants from both case companies appraise the benefits of SMA from two aspects. From a financial performance perspective, management in both companies believe the employment of SMA has brought greater financial returns, such as improved financial performance or higher growth rate in terms of profitability and revenues when compared to their peer groups. From a management perspective, both companies believe the SMA practices make a valuable contribution in assisting the organizations to achieve their strategic targets. These contributions are largely reflected in better informed decision-making, better accountability of commercial and marketing activities, and improved cross-functional corporation. In addition, although nonfinancial measures have been increasingly advocated in recent publications, empirical research has provided little evidence on how these measures have been operationalised (Said, et al, 2003). These cases have offered some practical insights into this.

Objective 2: What is the involvement of management accountants in SMA practices? Has their positioning changed in term of strategic importance?

Evidence gathered in this study depicts a new positioning of management accountants. The case study evidence supports the survey results that show management accountants have a close involvement in strategic management activities. This finding offers a new perspective on the traditionally-held view that management accountants are reluctant to change (Friedman and Lyne, 1997) and support some recent research that accountants are proactively making the transformation to cope with more and more demanding strategic activities (Bhimani and Keshtvarz, 1999; Siegel, et al, 2003). Some researchers argue that the opportunities of enhancing supply chain or operational excellence might have been explored by companies without going through formal analysis and process redesign conducted by the management accountants (Lord, 1996; Jazayeri and Hopper, 1999). But the extent of work diversification in large organizations does suggest the involvement of management accountants is offering a positive contribution. Management accountants are in an ideal position to collect and analyze both internal and external data. By presenting the competition information and performance measures in 'hard' figures, management accountants can better assist management to gather organizational attention and direct future improvement efforts. The employment of new measures and new reports effectively ties management

accounting operations closer to the business operations and helps to dispel the 'number-crunching' image of accountants.

The SMA practices observed in the case companies display very promising models for cross-functional cooperation between accounting and other functional departments in two respects: firstly, the management put more and more emphasis on financial awareness to inform marketing and commercial decision-making; and secondly, the transformation of management accounting operations (outsourcing transactional processes and automating financial reporting) offers accountants more freedom to go into business analysis and decision-support. Shank and Govindarajan (1988) have suggested that SMA will supplant managerial accounting for decision-making purposes. In this study, both the case evidence and the questionnaire survey indicates that a better positioning of management accountants has occurred and therefore vindicates Shank and Govindarajan's prophesy that strategic accountants will assist management to develop superior strategies *en route* to gaining sustainable competitive advantage.

Objective 3. How SMA practices become adopted in case companies, and what factors facilitate or impede the adoption of the SMA techniques?

In order to obtain greater insight into the SMA practices in real organizational settings, a detailed account of how organizations embrace SMA practices is generated through the two case studies. A neoinstitutional framework is used

to produce a systematic examination of the relevant factors concerning the adoption of SMA practices.

In both case studies, the external environments of the case companies created strong incentive for organizations to adopt SMA practices given the competition pressures they faced, desire to imitate the successful experiences of major rivals, recommendations from consultancy partners, and conformative influences of several types, e.g. financial markets, influential customers, etc). This finding confirms Granlund and Lukka (1998)'s statement that current management accounting practices are strongly framed and driven by factors at the macro level, at which considerable pressures for convergence currently apply.

It is observed, however, that similar influences from the external environment do not necessarily encourage the adoption of similar SMA practices in all situations. This is observed in the different experiences of the two case companies. Neoinstitutional theory suggests that change is one of the dynamics of organizations as the organizational actors stress their different interests and values. Therefore, the realized change outcomes are the results of internal battling between the different interests and power.

It is observed that the rationale behind the adoption of certain SMA techniques is whether the techniques can help the organizations better deliver their organizational strategic targets. As organizational strategic targets tend to be very specific and context-related, companies tend to rely on different

SMA practices to help support their management activities. For instance, ULE has placed considerable effort on its brand development and customer management in order to outperform its peer group, therefore, the SMA practices in ULE show highly dedicated support to mainly two functional areas: marketing and sales. While Meditech gives the greatest emphasis on consistent global operations, SMA techniques were mainly tailored for decision-making support with a full coverage of all operations. These two case companies also show different approaches of SMA adoption. For instance, the promotion of SMA practices in ULE was largely through the accounting partners cooperating with marketing and sales. In Meditech, SMA practices are embraced as a part of the company-wide IBP project. Therefore, it is argued that managers are most likely to turn to the SMA solutions that are regarded as most appealing and appropriate to their specific situations and organizational objectives, and the criteria of adopting certain SMA practices are whether the selected SMA practices can support the firms' specific strategic priorities.

As far as the implementation process of SMA is concerned, changes in both companies can be seen to be a centrally driven effort. Here both organizations' top management played a key role. They recognized the need to change, and subsequently planned, organized, and oversaw the changes. A further question that relates to the positioning of management accountants within the formal organizational hierarchy was raised by Malmi (1997). He argued that the reliance by management accountants on the top management and 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 the operations. From this study, it is observed that the success of SMA also depends on whether SMA practices can make realistic contributions to the organizations and win the trust of other organizational stakeholders. In both case companies, SMA practices have played a supportive role in assisting decision-making and reinforcing the accountability of marketing and commercial activities. The experiences of how the intraorganizational dynamics (i.e. the battling between different organizational interests and power) are dealt with in the two case companies offers valuable insights into how impediments to the adoption of SMA practices might be overcome. In the two cases of this study, SMA practices have been successfully blended into the operations of other functions; most of them in marketing and commercial operations. Working language has been developed gradually as accounting embraces greater business orientation and, in the meantime, financial awareness has been instilled to supplement marketing and commercial decision-making.

10.3 Methodological Contributions

SMA has generated significant research interest in the management accounting research community in recent decades. Influenced by trends of management accounting research, the SMA research conducted in the past has inevitably contained limitations. Firstly, economic theories were a primary basis for much of the SMA research (Scapens and Bromwich, 2001). In such

a setting the research focus therefore has been mainly on demonstrating the technical advancement of the SMA practices. Comparatively less research attention has been paid to the organizational contexts in which SMA practices occurred. Secondly, the research method employed in SMA research so far, mainly surveys, has offered largely static pictures of the SMA adoption status. Only limited efforts have been made to investigate the adoption of SMA as a change process. In light of these limitations, in this study, greater research effort has been applied capturing the processes of management accounting change, especially involving a perspective of how SMA operations have taken the place of conventional management accounting operations. In general, the contribution of this study can be summarized in two major respects: theoretical advancement and research method advancement in guiding empirical SMA research.

10.3.1 Theoretical advance – sociological investigation to enrich understanding of SMA phenomena

The main stream of early SMA research was mainly carried out within an economics framework, drawing heavily on the new classical theories to study the technical aspects of different SMA practices. The economic analysis facilitates the examination of general management accounting behaviours at the industry and market levels. However, it is argued that to make sense of diversity in management accounting practices we need to understand the complexity of the inter-related organizational influences which shape the SMA practices of individual organizations (Scapens, 2006). This thesis has

demonstrated the importance of how contextual pressures are interpreted and acted upon by organizational actors in their adoption or denial of SMA practices. In interpreting SMA phenomena as socially constructed, this research has actively broadened the analysis from purely economic efficiency criteria and obtained fresh insights with sociological underpinnings and the institutional implications that are attached to the adoption of SMA practices. This has successfully illustrated that the adoption process of SMA practices is profoundly political and reflects the relative power of organizational interests (Tolbert, 1988; DiMaggio and Powell, 1991).

10.3.2 Case study –discovery of the richness of field research

Early SMA research has adopted a predominantly static approach, relying mainly on cross-sectional surveys, with primary focus on understanding the diversity in the population of organizations under review (Scapens, 2006). However, survey studies on SMA can only predict general trends; they cannot explain the processes through which SMA practices evolve in particular organizations. As the business world is fast-moving and organizations differ from each other widely, generalization is deemed to be difficult, nor is it valuable as in natural science. Management accounting research is fundamentally an applied research that should ultimately provide new insights for practice (Saunders, et al., 2000, Ittner and Lacker, 2002). More insights therefore should be generated with reasoning on SMA success or failure.

Detailed examination of the actual practices in a specific organizational setting can be valuable. This study has adopted a process-oriented approach, relying on case studies, to understand how SMA practices evolve in organizations. This research not only reports on the innovative SMA practices, but also reveals the historical development of SMA practices and the dynamics around the research subject (See Scapens and Bromwich, 2001). Both case studies shed light on how successful implementation of SMA practices have been conducted in real organizational settings, and how close involvement of management accountants on strategic issues has been achieved. This provides contrasting evidence to many previously publications on the low adoption of SMA practices and management accounting's resistance to change (Argyris and Kaplan, 1994; Bromwich and Bhimani, 1994; Malmi, 1997).

10.4 Limitations and Potential for Future Research

The study's findings should be interpreted in light of several limitations.

Firstly, there are limitations concerning the scale of the survey conducted in this study. Because of its nature as a pilot study, the sample size is relatively small and it is only conducted in UK. Therefore, the survey results are not expected to be 'applicable' to explain the SMA practices in other countries. In addition, prior research works suggest that company size is potentially positively related to greater use of, and greater perceived helpfulness of many SMA practices (Guilding, 1999, Guilding et al, 2000). Because the sample is a

selection of UK large organizations, it makes no statement concerning the adoption and implementation of SMA practices in small-to-medium business sectors which may see different SMA adoption.

Secondly, the SMA practices summarized in the questionnaire and case study might not be all inclusive. In this study, only the techniques that convey a strong external market and competition focus are included, but many researchers argue that strategy is not only about beating the competition in the '*Porterian's*' sense, but also coping with emerging complexity around the organization(Seal,2001). In this sense, achieving operational excellence, maximizing shareholder return, or even raising environmental concerns can all serve as strategic pursuits of organizations. If these broader strategy concepts are adopted, then the potential list of SMA techniques could be much longer, including many other techniques, such as activity-based costing/management (ABC/M), economic-value added (EVA), beyond budgeting , etc.

A related shortcoming is that standardization of SMA terminology has proved to be difficult in different organizations. This problem has been highlighted by the minimal extent to which the term "SMA" is used in companies. Given the under-defined nature of SMA research, it is impractical to expect the case companies to acknowledge every academic-proposed SMA practice. Careful attention has been given however to ensure that the substantial meaning of SMA practices have been adequately delivered to the participants of this research, both in survey and case study.

Thirdly, it is acknowledged that these two case studies are but two case studies in specific settings. The social reality in which accounting practices are embedded is interpreted by case study researchers in a subjective manner. Scapens (1990) expresses his concern that there are no 'objective' case studies (p.277) because case study researchers by definition mainly rely on the descriptions of events offered to them by organizational participants. These descriptions are themselves based on the individual participants' own interpretations of their experiences or observations. Therefore, case studies do not represent unproblematic facts (Ryan, et al, 2003). The researcher of this study also faced many common problems encountered by case study researchers, such as the constrained timeframe, the occasional non-availability of anticipated interviewees, and the inaccessibility of sensitive company information. Improvement along these dimensions will help the achievement of case studies of even higher quality. However, any research unavoidably faces certain sorts of research constraints. Great care has been taken in this study to ensure an objective and realistic interpretation of SMA practices in particular organizational settings is provided.

Several future research avenues that management accounting researchers can pursue are identified.

Future research should expand the boundaries of SMA research. It is argued in this study that SMA should be better understood as a multi-faceted concept which embraces not only the efficient treatment of transactional processing and routine reporting, but also, and more importantly, its influential role in supporting decision-making. In this sense, SMA can be better rephrased as

'strategy-constituted management accounting'. As it is highly likely that different organizations operationalize accounting information in different ways and with differing impacts on strategic processes (Chenhall, 2005; McBarnet et al., 1993; Mouritsen, 1999), a fruitful research area is to understand how and to which extent management accounting operations cooperate with the organizational strategic objectives within particular organizational settings, rather than on promoting discrete techniques of SMA.

In future SMA research, theoretical insights from different research paradigms should be encouraged. In this study, the employment of institutional theories represents an attempt to demonstrate that the adoption of SMA practices is as much an organizational choice of achieving high level of economic efficiency as conformity to social norms of acceptable behaviour. In recent decades, greater theoretical eclecticism is emerging, as more and more organizational and sociological theories have been adopted to examine the development, maintenance and change in management accounting practices; and the strengths and limitations of alternative theoretical approaches to management accounting research have been better understood. Awareness of multiple theoretical frames helps keep alive competing interpretations of organizational action (Covaleski, et al, 1996). This is especially critical when case study method is applied. Combining multiple theoretical perspectives can help to create more compete and valid explanations of the causes and effects of SMA practices in organizations.

More case studies concerning SMA practices in organizations should be conducted, perhaps in more diversified industrial sectors, to reflect the

influences of the complex strategic and environmental factors on SMA practices. This type of research has much strength: theory and empirics are closer to practical concerns and promote interdisciplinarity (Hopper, et al, 2001). Engaging in such research promotes more extensive enterprise-based longitudinal studies to trace the evolutionary process of the adoption SMA practices and provide rich accounts of the often very complex relationships between organizational contexts and the functioning of accounting. As Ahrens and Dent (1998) argue that there are great tensions and ambiguities that often characterize accounting in action, with the sometimes contradictory ways of possible interpretations, the researcher believes capturing these ambiguities, tensions and contradictions to be a major opportunity offered by case study and longitudinal research methods.

10.5 Concluding remarks

Since 1987, when Johnson and Kaplan published their book *Relevance Lost*, researchers have been discussing whether management accounting practices are changing to keep pace with the changing needs of companies operating in an increasingly complex business environment. There have been a number of questionnaire surveys and case studies, but with mixed, and in some instances, contradictory results. Some studies, particularly those based on questionnaires, have suggested that management accounting practices have been slow to change, despite the considerable environmental, technological and organizational change that has taken place over the last

two decades. A number of case studies, however, describe the introduction of so-called 'advanced' management accounting techniques.

This study discloses the changing nature of current management accounting practices in some large UK organizations. 'Management accounting change' in this study is defined not only as introduction of new systems and techniques, but also in terms of changing the way in which the traditional management accounting function is organized (Scapens et al, 2003). As observed from survey and case evidence gathered in this study, the researcher believes that management accounting has evolved from a traditional monitoring and control perspective, to a more business- and support-oriented perspective. Many routine management accounting tasks are either handled by computer systems or undertaken by small specialist groups, often outsourced. This development provides opportunity for management accountants to better fulfil a business support role. A key task for the management accountant is to link financial considerations with both operating concerns and the strategic priorities of the business. However, this requires a broad-based understanding of the business – with the management accountants working alongside other managers, in cross-functional teams, rather than in a separate accounting function. The challenge for the management accounting profession is to ensure that their members have the knowledge, skills, and capabilities to take advantage of the opportunities that are undoubtedly there.

This study also set out to explore the complex web of social processes which comprise the adoption of SMA practices, to illustrate their historical and contingent characteristics, and to illustrate how the process of organizational change can shape the contents of management accounting operations. Consequently, the understanding of SMA practices, as a form of social practice, is achieved by exploring their development and identifying the various influences bearing upon it. Explanatory case studies, in combination with neoinstitutional theory, have examined the contextual (influences from external environment) and behavioural (intraorganizational interests and conflicts) aspects of management accounting change to illuminate the 'mish-mash' of interrelated influences which comprise organizational SMA practices. The researcher argues that the external environment exhibits strong demand for SMA practices and there is a tendency to adopt SMA practices in large UK companies based on the survey and case material. But the successful adoption of SMA practices requires cooperative intraorganizational forces, which mainly involve the interaction between different interests and power of intraorganizational players. Despite the encouragement from external environments for the change of conventional management accounting operations and the adoption of SMA practices, there is plenty of evidence of intraorganizational resistance to SMA practices (Malmi, 1997, Burns and Baldvinsdottir, 2005). Institutional researchers view the adoption of management accounting innovations by individual organization as largely a political process which involves power, interests, etc (Scapens, 1994; Burns and Baldvinsdottir, 2005). This study also confirms that the characteristics of social institutions play a significant role in the cumulative process of change or

its denial. Social dimension is worth close examination to enrich our understanding of the adoption of SMA practices in particular, and management accounting change in general.

Appendices

Appendix 1 Examples of SMA practices

Strategic Pricing

The analysis of strategic factors in the pricing decision process. These factors may include: competitor price reaction, price elasticity, market growth, economies of scale, and experience.

Target Costing

A method used during product and process design that involves estimating a cost calculated by subtracting a desired profit margin from an estimated (or market- based) price to arrive at a desired production, engineering, or marketing cost. The product is then designed to meet that cost.

Valuation of Customers or Customer Groups as Assets

Refers to the calculation of the value of customers to the company. For example, this could be undertaken by computing the present value of all future profit streams attributable to a particular customer or group of customers.

Value Chain Costing

An activity-based costing approach where costs are allocated to activities required to design, procure, produce, market, distribute, and service a product or service.

Attribute Costing

The costing of specific product attributes that appeal to customers. Attributes that may be costed include: operating performance variables, reliability, warranty arrangements, the degree of finish and trim, assurance of supply, and after sales service.

Benchmarking

The comparison of internal processes to an ideal standard.

Brand Valuation

The financial valuation of a brand through the assessment of brand strength factors such as; leadership, stability, market, internationality, trend, support, and protection combined with historical brand profits. This practice has been used by several strongly branded companies in Europe and Australasia.

Competitive Position Monitoring

The analysis of competitor positions within the industry by assessing and monitoring trends in competitor sales, market share, volume, unit costs, and return on sales. This information can provide the basis for assessing a competitor's market strategy.

Competitor Cost Assessment

The provision of a regularly updated estimate of a competitor's unit cost.

Competitor Performance Appraisal

The numerical analysis of a competitor's published statements as part of an assessment of a competitor's key sources of competitive advantage.

Customer Profitability Analysis

This involves calculating profit earned from a specific customer. The profit calculation is based on costs and sales that can be traced to a particular customer. This technique is sometimes referred to as "Customer Account Profitability".

Integrated Performance Measurement

A measurement system which focuses typically on acquiring performance knowledge based on customer requirements and may encompass non-financial measures. This measure involves departments monitoring those factors which are critical to securing customer satisfaction.

Life Cycle Costing

The appraisal of costs based on the length of Stages of a product or service's life. These stages may include design, introduction, growth, maturity, decline, and eventually abandonment.

Lifetime Customer Profitability Analysis

This involves extending the time horizon for customer profitability analysis to include future years. The practice focuses on all anticipated future revenue streams and costs involved in servicing a particular customer.

Quality Costing

Quality costs are those costs associated with the creation, identification, repair, and prevention of defects. These can be classified into three categories; prevention, appraisal, and failure costs. Cost of quality reports are produced for the purpose of directing management attention to prioritise quality problems.

Strategic Costing

The use of cost data based on strategic and marketing information to develop and identify superior strategies that will produce a sustainable competitive advantage.

Source: Guilding et al (2000) Glossary of strategic management accounting practices

Appendix 2 Questionnaire Covering letter

Dear Sir / Madam

STRATEGIC MANAGEMENT ACCOUNTING

Further to our recent telephone call to your office it was agreed that you were the most appropriate person to help with this Survey. We are part of an international research team sponsored to investigate the views of Senior Accounting Executives on the topical issue of Strategic Management Accounting. We are pleased that you have agreed to help us.

As part of this exercise we are conducting a survey to:

- measure the extent to which strategic management accounting practices are employed in UK companies,
- study the relationship between corporate strategy and the use of strategic management accounting.

We would be grateful if you could take about 10 minutes to complete the enclosed questionnaire. If you would like a copy of the summary report please give us your details on the questionnaire or attach your business card.

To assist your completion of the questionnaire, a glossary of strategic management accounting definitions is enclosed. We hope you find the glossary useful and worthy of retaining for future reference. We would be happy to provide more details if you require them. You can be assured that your questionnaire responses will be treated in a confidential and anonymous manner.

This project forms a vital link between accounting practice and academe it can only proceed with your cooperation. Could you please return your completed questionnaire in the envelope provided.

I thank you in advance for your help in this study.

Yours sincerely

Michael Tayles
Professor of Accounting and Finance
Yi Ma
Research Assistant

**TEXT
BOUND INTO THE
SPINE**

Appendix 3 Strategic Management Accounting (SMA) Questionnaire

STRATEGIC MANAGEMENT ACCOUNTING QUESTIONNAIRE

*To be completed by a Senior Accounting Executive in the Company concerned.
Responses should be applicable to the organisation unit with which (s)he is most familiar*

Section I: APPLICATION OF STRATEGIC MANAGEMENT ACCOUNTING TECHNIQUES

A.	Please indicate to what extent your organization uses the following practices (see glossary for interpretation)	Not at all				To a great extent		
		1	2	3	4	5	6	7
1	Target costing	1	2	3	4	5	6	7
2	Life cycle costing	1	2	3	4	5	6	7
3	Value chain costing	1	2	3	4	5	6	7
4	Attribute costing	1	2	3	4	5	6	7
5	Quality costing	1	2	3	4	5	6	7
6	Competitor cost assessment	1	2	3	4	5	6	7
7	Competitive position monitoring	1	2	3	4	5	6	7
8	Competitor performance appraisal	1	2	3	4	5	6	7
9	Customer profitability analysis	1	2	3	4	5	6	7
10	Lifetime customer profitability analysis	1	2	3	4	5	6	7
11	Valuation of customers or customer groups as assets	1	2	3	4	5	6	7
12	Benchmarking	1	2	3	4	5	6	7
13	Integrated performance measurement	1	2	3	4	5	6	7
14	Strategic pricing	1	2	3	4	5	6	7
15	Strategic costing	1	2	3	4	5	6	7
16	Brand valuation (budgeting and monitoring)	1	2	3	4	5	6	7

Section II: PARTICIPATION OF ACCOUNTANTS (CONTROLLERS) IN THE STRATEGY PROCESS

B	Please indicate the extent you are involved in the following aspects of your organisation's strategic management processes:	Not at all involved				Fully involved		
		1	2	3	4	5	6	7
1	Identifying problems and proposing objectives	1	2	3	4	5	6	7
2	Generating options	1	2	3	4	5	6	7
3	Evaluating options	1	2	3	4	5	6	7
4	Developing details about options	1	2	3	4	5	6	7
5	Taking the necessary actions to put strategic changes into place	1	2	3	4	5	6	7
6	Other (please describe)							

Section III: STRATEGY

C1. Below is a description of three imaginary organizations: A, B and C. Please read the descriptions and assess, which one best describes your organization. Then, place your organization on the scale provided, by circling one of the 7 numbers, whereby a (1) represents organization A, a (4) represents organization B and a (7) represents organization C.

A B C
1 2 3 4 5 6 7

Organization A offers a relatively stable set of products/services. Generally organization A is not at the forefront of new products/services or markets developments. It tends to ignore changes that have no direct impact on current areas of operation and concentrates instead on doing the best job possible in its existing arena.

Organization B maintains a relatively stable base of products/services while at the same time moving to meet selected, promising new product/service/market developments. The organization is seldom first in with new products/services. However, by carefully monitoring the actions of institutions like organization C, it attempts to follow with a more cost-efficient or well-conceived product/service.

Organization C makes relatively frequent changes in (especially additions to) its set of products/services. It consistently attempts to pioneer by being first in new areas of product/service or market activity, even if not all of these efforts ultimately prove to be highly successful. Organization C responds rapidly to early signals of market needs or opportunities.

C2	Please indicate, the extent to which you agree with the following statements regarding your company's strategy:	Strongly disagree					Strongly agree	
		1	2	3	4	5	6	7
1	In our company, the strategic decision-makers usually think through everything in advance of strategic action.	1	2	3	4	5	6	7
2	In our company, strategic intentions are seldom realized with little or no deviation	1	2	3	4	5	6	7
3	In our company, strategic action usually develops in the absence of strategic intention.	1	2	3	4	5	6	7

Section IV: POTENTIAL OF STRATEGIC MANAGEMENT ACCOUNTING

D1	Please indicate the extent to which you think the following Practices could be helpful to your organization.	Not at all				To a great extent		
		1	2	3	4	5	6	7
1	Target costing	1	2	3	4	5	6	7
2	Life cycle costing	1	2	3	4	5	6	7
3	Value chain costing	1	2	3	4	5	6	7
4	Attribute costing	1	2	3	4	5	6	7
5	Quality costing	1	2	3	4	5	6	7
6	Competitor cost assessment	1	2	3	4	5	6	7
7	Competitive position monitoring	1	2	3	4	5	6	7
8	Competitor performance appraisal	1	2	3	4	5	6	7
9	Customer profitability analysis	1	2	3	4	5	6	7
10	Lifetime customer profitability analysis	1	2	3	4	5	6	7
11	Valuation of customers or customer groups as assets	1	2	3	4	5	6	7
12	Benchmarking	1	2	3	4	5	6	7
13	Integrated performance measurement	1	2	3	4	5	6	7
14	Strategic pricing	1	2	3	4	5	6	7
15	Strategic costing	1	2	3	4	5	6	7
16	Brand valuation (budgeting and monitoring)	1	2	3	4	5	6	7

- D2.
To which extent is the term ‘Strategic Management Accounting’ used in your organization?

Not At All

Frequently

2

3

4

5

6

7
- D3.
Prior to completing the questionnaire, did you consider you had a strong appreciation of what is meant by ‘Strategic Management Accounting’?

Very Little

Very High

1

2

3

4

5

6

7

Section VII: RELATING TO YOUR OWN COMPANY OR ORGANISATIONAL UNIT

Please indicate the main business of your company or organizational unit.

- Manufacturing

☐1

Retail

☐2

Service

☐3
- Financial and commercial

☐4

Conglomerate

☐5

Other

☐6

Please indicate the turnover of your company or organizational unit.

- £0-£25m

£26m-£50m

£51m-£75m

£76m-£100m

£101m-£200m

£201m-£300m

Over £300m
- ☐1

☐2

☐3

☐4

☐5

☐6

☐7

Where are you located in the organizational structure?

- ☐1

at group head office

☐2

at divisional head office
- ☐3

at an operating unit

☐4

not applicable, no group structure

Please indicate the length of time in this post.

- ☐1

2 years

☐2

2-5 years

☐3

5-10 years

☐4

Over 10 years

Would you please provide us with the following information which will only be used to contact you in the event of a query and to send you a summary report of our findings. It will not be recorded or revealed to third parties. You may attach your business card or leave all of this blank.

Person completing the questionnaire:

Name

Job title

Organization/Company

Address

Telephone No

Appendix 4 Checklist of research objectives and research enquiries

Purposes of Research

1. the SMA techniques in use
2. the perception of the value of the SMA techniques
3. How the techniques work in the organization
4. distinguish the relevant parties participating the specific processes
5. How the techniques initially proposed? Implemented? Routinised? Any confusion, difficulties, resistance?

Q1.Distinguish the most-relied on techniques in operation

Probe: *the implication of the utilisation of these techniques, whether they indicate strong marketing orientation/competition awareness/ cost sensitiveness, etc*

Who is leading the programs?

Who are providing the information? Does Accounting serve as interface towards the multi-functional cooperation?

Q2.How do you perceive the usefulness of these techniques?

Probe: *Do you have such a report that I could look at and use as a focus for discussion?*

What are the most important measures that you are using? Financial/ non-financial / or combined?

How do you develop the targets for use in these reports? Probe for use of internal/external data, historical/'best practice' standards? Are targets developed from internal data such as trends, plant estimates, etc.

Do you have access to external to external information about performance from, e.g. other plants, within your organization or competitors'?

Do you use this external information in developing targets?

Can you describe how this is done?

Q3.Please describe the processes of these practices.

Q3.1 which are the relevant parties involved in these processes?

Probe: *Are they built up as separate targets by financial/accounting people? Or engineers, or general management, or other parties, or , are they developed together as an integrated exercise?*

Q3.2 what are their roles in either preparing or using these information?

Probe: *Please describe how you function in this practice.*

Who are connected to you to feed or obtain information ?

How you regard the importance of these practices in helping the organization achieve its strategic objectives?

If useful, what is main reason you think it can achieve this usefulness?

What are the key issues you regard as critical?

Any further improvement can be made possible?

Q4. How these practices came into being at the first place?

Probe: Economic pressures:

How's the competition status around the industry?

How's your company's position in this competition?

Is the adoption of certain SMA techniques influenced by any adoption of the advanced manufacturing (JIT, TQM) or realized via advanced information systems (SAP, EDI) etc?

(for example , standardized software packages, such as SAP lead to the standardization of data collection format and reporting patterns in the production of accounting information.)

Is there any must-have pressures on adopting certain practices due to unanimous agreement that these practices can lead to higher effectiveness and efficiency?

Coercive Pressures:

Is the adoption of certain techniques influenced by government regulations, industrial associations, or large influential customers or suppliers?

Or as a global company, the national subsidiaries possess little decision-making authority, including their decisions on macro-level management accounting practices.

Normative pressures:

Is the adoption of any SMA techniques proposed by the management accountants? Or Chief executives, due to the training they received? Or the broadcast within the circle they belong to?

How often do you receive information from academic research?

How these publications influence your ideas?

Mimetic pressures:

Mimetic processes suggest that companies, under conditions of uncertainty, copy publicly known and appreciated models of operation from each other, especially from successful companies that have good reputation.

How often (to how big a degree) you tend to refer to the leading competitors' practices ?

Do consultancy practices lead to the awareness of certain techniques?

(However, make sure that in practice, these factors might be interconnected. For instance, ABC may appeal to the idea of efficiency improvement, promoted by consultancy. There could be also a good reason to believe that a firm might want to implement ABC because the leading companies within its organizational field has adopted it.)

2. Organization Internal Issues

Do managers from different departments show a high degree of financial literacy and concerns? Do they tend to view accounting information as the major focus of their attention?

Have the SMA techniques been helpful in facilitating the communications between the different departments and reaching mutually understandable and satisfactory solutions concerning certain business issues, i.e. operational efficiency and sales flexibility?

Do the management accountants show strong interests in participating the strategic planning activities?

Are the newly adopted techniques associated with developing market strategy, exercising quality control, or enhancing employee motivation, all of which are largely un-associated with traditional management accounting techniques?

Are any of those issues below considered when taking on a new proposal of investing in and implementing new SMA practices?

- a. Cost of Change (equipment, people, time)*
- b. Lack of relevant skills*
- c. Current costing system is adequate*
- d. Management inertia*
- e. Investment in existing systems*
- f. Lack of relevant software*
- g. Insufficient information on such techniques*
- h. Fear of failure*

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