

THE UNIVERSITY OF HULL

THE CONTROL OF ACQUIRED COMPANIES
(A STUDY OF THE ROLE OF MANAGEMENT ACCOUNTING SYSTEMS
FOLLOWING ACQUISITION)

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by

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The generally favourable attitudes adopted towards mergers and takeovers during the 1960's and 1970's, have been replaced by increasing scepticism and any company choosing to grow in this manner now faces a much more critical government, business, and public audience. Despite the failure of so many acquisitions to meet expectations little has been written on post-acquisition management. Furthermore, specific guidelines on the design of management accounting systems, as tools which may facilitate the post-acquisition management process, are virtually non-existent. Consequently the practitioner is forced to proceed in a largely intuitive manner. This is made more difficult because of the tensions created by acquisition and the dilemma that a large, and frequently very expensive, collection of assets, both physical and human, needs to be controlled but without dimming the spark which made the acquisition attractive.

Achieving control of newly acquired subsidiary companies is thus a delicate and demanding management task for which the penalties of failure can be considerable. This study considers the issues involved, with particular reference to the changes introduced in a range of controls, broadly described as 'management accounting systems', which can be used to assist organisational integration and control.

The author developed an interest in post-acquisition management during the exercise of executive responsibilities which involved, amongst other things, advising acquired companies on the adaptation of management control systems, and acting as an agent of change. This interest was further stimulated during a period of post-graduate study at the University of Warwick.

In 1978 a paper, written by the author, entitled "Financial planning and control systems in the post-merger situation" was published in the University of Hull Economic Research Papers series.⁽¹⁾ This was followed by articles, published early in 1980, in two leading accounting professional journals.⁽²⁾ These articles resulted in a commission to write a book on the management of mergers and takeovers and this was published in July 1982.⁽³⁾ The articles

also influenced the Research and Technical Committee of the Institute of Cost and Management Accountants which agreed to finance a two-year empirical study of financial and planning control systems following acquisition. A paper, entitled "Can controls contribute to acquisition success?" outlining some of the interim findings was published in October 1981 by the ICMA⁽⁴⁾. The final report was accepted in November 1982 by the Research and Technical Committee of the ICMA for publication as an Occasional Paper.⁽⁵⁾ The findings of the report are incorporated into sections 1, 2, 4-7 and 10 of this thesis.

I am most grateful to the Research and Technical Committee of the ICMA whose support enabled the empirical study to be conducted and to the numerous senior executives, who must remain anonymous, for so generously devoting their time to the study and for providing very frank and open responses on sensitive issues. My thanks are also extended to two academic referees for their useful comments prior to publication of the Occasional Paper; to colleagues at the University of Hull, for their encouragement; and to Maureen Wilde who so cheerfully and diligently typed my manuscript.

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ABSTRACT

The literature of accounting contains very few references pertaining to the design of, and approach to introducing changes in, accounting-type controls following acquisition. Furthermore, these references reveal conflicts concerning both the extent and speed of desirable changes. The predominant view reflects the underlying premise of many control systems, that individuals are not to be trusted and need to be policed.

This study seeks to improve understanding of the control systems adopted in practice and to assess whether these are in accordance with theoretical expectations and finally, to suggest ways of improving existing practices. The main objectives are:

To consider the nature and context of management accounting systems (MAS) and the possible influences of broader management studies upon the design of post-acquisition MAS.

To identify how acquiring companies, making acquisitions which were similar to, or perhaps very different from, the parent company, modified and used MAS in order to establish control.

To draw implications for the design of MAS and for the introduction of changes to MAS following acquisition.

The study comprises three parts, corresponding with each of the main objectives.

Part 1 has three chapters and reviews relevant literature from the disciplines of accounting, organisational theory, and organisational behaviour. A highly selective approach is adopted, particularly to the latter two disciplines, because the literature is so extensive. In some instances the relationships between the theories - for example of motivation - whether empirically supported or not, and accounting control systems are tenuous or disputed; in others, such as the contingency theory of MAS, they are at a very early stage of development. This thesis endeavours, for the first time to the author's knowledge, to draw together these strands of evidence to provide theoretical expectations for the design of post-acquisition MAS.

Chapter one considers the context of MAS and how they form part of the administrative controls which, in combination with social and self-controls, provide overall organisational control.

Chapter two describes the importance of MAS as devices which are capable of facilitating organisational integration, motivating individuals and groups, and assisting in decision-making and in the measurement of performance - activities which assume enhanced importance following acquisition.

Chapter three seeks to identify and to briefly describe the variables, both within and outside an organisation, which may influence MAS and therefore may need to be considered when designing MAS. The contingency theory of MAS is seen as having particular relevance in this context with important implications for the design of post-acquisition MAS.

Part II consists of five chapters describing the findings of an empirical study of the management control relationships established between thirty acquiring and acquired companies during the first two post-acquisition years. Ordinal measurements are introduced as a means of identifying changes in the importance of MAS, their conformity with parent company controls, and the resistance and technical difficulty experienced during the change process.

Chapter four provides some background information on the circumstances of, and the depth of planning for, these acquisitions.

The next chapter describes the changes in importance, following acquisition, of thirteen management accounting techniques (MATs). It shows that the importance of all techniques increased significantly and those capable of facilitating organisational integration became most important. They were also most highly exploited in terms of the potential for change and were introduced most rapidly. This resulted in fundamental changes in management style characterised by increases in both formality and the delegation of authority.

Chapter six considers the conformity, with the practices of the acquiring company, introduced into MAS in acquired companies. With the exception of some operational controls conformity was of a high degree although high conformity in individual MATs was not necessarily accompanied by high importance.

Chapter seven acknowledges that the manner in which changes in MAS are introduced can influence their effectiveness. It describes how changes were introduced, the attempts made to minimise resistance, the problems that were encountered, and the level of satisfaction felt by those responsible for changes. In so doing, it serves two purposes; firstly, it provides some indication of acquisition success or failure - for example, there is evidence of association between 'success' and the adoption of consultative approaches to change. Secondly, by implication, it suggests ways in which practice may be improved.

Chapter eight draws together many of the theoretical ideas explored in section 1 and relates them to the evidence from the empirical study. It considers evidence that changes in MAS might be explained in terms of, or be consistent with, the contingency theory view of MAS. It provides some evidence that companies responded to environmental and technological changes by placing greater emphasis upon predictive MATs and strong evidence of increased sophistication in the MATs used in acquired companies; partly explicable in terms of turbulence associated with environmental factors and acquisition itself. However, direct evidence that contingent influences were recognised in the determination of post-acquisition MAS was strong in only a small minority of cases. A rigorous statistical study provided only limited support for the hypothesis that greater divergence between organisational characteristics of acquisition partners would be accompanied by reduced conformity in MAS. However, the results of a weaker test revealed some association between style of acquisition and the level of conformity introduced.

Part III comprises two chapters. Chapter nine introduces measures of the success or failure of the acquisitions studied followed by reflections upon the changes that were observed. The changes, even those which enhanced the responsibility and freedom of individuals, are seen as consistent with the process of bureaucratisation characteristic of large organisations. The importance of MAS relative to inter-personal means of control and as bases for

modifying the distribution of power and authority is considered. It is suggested that power moves away from senior executives in acquired companies as group procedures and rules are introduced, and also because the initiative to introduce change is in the hands of acquirers. In contrast, the power of lower participants may be enhanced by greater delegation of authority and the scope that is created for the circumvention of higher authority which is regarded as illegitimate. Finally, this chapter considers some of the deeper meanings that may attach to changes in MAS, including the rationalisation of prior actions, retrospective goal discovery, and the conveyance of revised management philosophies to individuals in acquired companies.

Chapter ten proposes the need for greater flexibility, in contrast to the rigidity observed in so many instances, and also as being more consistent with the contingency theory of MAS. It suggests that various MATs cause different behavioural sensitivity at different organisational levels and recognition of this could guide changers in the selective introduction of change. A model is presented which proposes that the organisational characteristics of acquirer and acquired companies should be compared and, dependent upon the degree of matching, so different approaches should be adopted to the modification of MAS. Finally, this procedure is applied to the companies studied to provide theoretical bases for change. This is related to the approaches actually adopted and consistencies and inconsistencies are compared with success or failure, revealing an encouraging degree of support for the model.

INTRODUCTION TO THE PROBLEM

A few suggestions have been published on how companies can best handle accounting-type controls following an acquisition. Most of them, however, reflect the underlying premise of many control systems, namely that the person, or company in the case of an acquisition, subjected to control cannot be trusted and needs to be policed. This attitude seems to affect both the nature of the control systems introduced and their speed of introduction.

For example, Wallace (1966) suggested that successful acquirers had well-developed budgetary control and planning systems and applied them to acquisitions in the first year. Caulkin (1975) advocated that integration must take place quickly before dissidents started empire-building and pulling in different directions. Harvey and Newgarden (1969) commented that "... some of the companies we acquire do not have a modern accounting control system. Our tighter requirements in these areas are clearly defined in our comptrollers' manual, a copy of which is sent to the local comptroller immediately after the acquisition is consummated". This theme of urgency was also emphasised by Searby (1969): "The key variables should be brought under control immediately following the merger... Controls to measure the results of actual performance against plan should be installed". He suggested that key variables for a transport company included operating personnel costs and the utilisation of equipment and facilities. However, because these variables go to the very root of operating management responsibility, such changes may challenge their competence with dysfunctional effects upon morale and motivation.

In contrast, others - far fewer in number - adopted a very different approach to post-acquisition control. For example, Pearson (1978) suggested: "For the accountants of the acquiring company, however, there is a different trap. It is tempting to instruct the acquisition immediately to conform to the reporting format of the parent company. This is a recipe for chaos and confusion".

These apparently disparate views have two possible explanations. First, that the principles underlying the design and application of effective accounting systems have been relatively neglected. Hopwood (1974, p. 191) referred to "... the procedural difficulties which companies faced during the recent wave of mergers and acquisitions when business and organisational environments radically changed. Of course, many factors were operative, but not least amongst them was the problem of fitting existing accounting systems to novel situations. All too often they just did not fit!"

An alternative explanation is that the views are not entirely disparate but explain approaches to control found to be appropriate in different circumstances or refer to control systems at different levels within a business. For example, the degree of desirable changes in corporate planning procedures or funds control, necessary in order to comply with the overall policies of a group, may conceivably be quite different from those in variance reporting which relates to the operational level of a company.

Discussions during the study with numerous senior executives involved with general and financial management revealed similarly disparate views. For example, the financial director of a conglomerate group described his approach to the introduction of group accounting controls to a major acquisition, which had been effected after a bitterly resisted take-over battle, as follows: "We wore the stripes and went in immediately the bid became unconditional and told them what we wanted". In contrast, a divisional chief executive (also a qualified accountant) in another group instructed all group accounting staff to keep away from a significant acquisition placed within his division. He filtered all contact between group staff and the acquired and strongly advocated that the accounting control systems should not be changed. Ironically, the financial director of the acquired company had been struggling for years to persuade his entrepreneurial board of directors to introduce controls more appropriate to a public company.

During the study many executives, particularly financial executives, admitted lacking previous experience of post-acquisition management and concluded that they would 'handle the situation differently next time'. These admissions revealed a disquiet, on behalf of many acquirers, with the approaches adopted to post-acquisition control. It also became evident that although some executives in acquiring companies believed their approach to be satisfactory, the view held by executives and staff in acquired companies was frequently quite different.

TERMINOLOGY

Management accounting technique (MAT): refers to a single technique such as monthly accounts and reports. 'MATs' refers to several such techniques where they have been under individual consideration.

Management accounting systems (MAS): refers to management accounting techniques collectively.

Merger, take-over and acquisition: although it is possible to distinguish between merger and take-over in terms of the relative strengths of the parties, the terms will be used synonymously in this thesis, together with the term 'acquisition'. This is justified because each has common elements and the differences are often more apparent than real. For example, following an amicable merger between apparently equal partners, key managers may become just as averse to change as those who have been involved in a more hostile take-over by a dominant partner. True mergers, in which all partners relinquish their independence in favour of creating a new comprehensive policy are rare occurrences.

Horizontal acquisition: one between companies involved in the same type of business with approximately the same, or closely similar, customers and suppliers, thus constituting a move within the same economic environment.

Vertical acquisition: concerns companies operating at successive stages of production so that one supplies or is supplied by the other.

Conglomerate acquisition: involves the coming together of firms in different businesses without common trading interests.

Concentric acquisition: the extension of activities whilst retaining a measure of commonality with existing activities, either by (1) acquiring different technology which can be marketed to existing or similar customer types (concentric marketing) or (2) by acquiring new customers for the existing technology (concentric technology).

PART I

This part reviews relevant literature from the disciplines of accounting, organisational theory, and organisational behaviour to establish: the context and importance of management accounting systems within the framework of organisational control; and how management accounting systems may be influenced by organisational variations.

CONTEXT OF MANAGEMENT ACCOUNTING SYSTEMS

Control in organisations is effected by an intricate interplay of devices which may be broadly classified as social controls, administrative controls and self controls. Social controls reflect the norms devised or evolved by a group of people which regulate their behaviour and enable the group to survive. Administrative controls embrace largely, but not exclusively, codified rules and regulations and the paper-systems which facilitate the measurement, collection, processing and passage of information within an organisation. Traditionally such systems have been regarded as mechanistic. For example, Beer (1964) stated that to be effective control systems should be designed as cybernetic systems, which he defined as "a tightly knit network of information". In that context control was defined as "a homeostatic machine for regulating itself". Although administrative controls may appear to be the most important category, because they are the most obvious and overt controls operating in an organisation, this cannot be taken for granted. In the final analysis it is the third category of control, self-control, which binds together social and administrative controls with the personal beliefs, background and aspirations of the individual, to influence his behaviour.

Thus organisational control comprises two elements, the information network, which may be regarded as the structure of a control system, and the set of social relationships through which such systems achieve their goals. However, since these two facets interact with each other they require joint, rather than separate consideration (Ansari 1977). For example, under a climate of trust individuals may increase their opportunities for psychological success, which is an important source of energy or motivation, and management may feel less need to develop tight control mechanisms (Argyris 1964, p.31).

Management accounting control systems (MAS) form part of the administrative controls and within the context of overall organisational control may appear to be relatively minor. However, their influence extends beyond purely paper-

systems because the information they provide is capable of modifying the behaviour of individuals and groups.

MAS may be defined in terms closely similar to those used by Lowe (1971) to describe a management control system, namely "... a system of organizational information seeking and gathering, accountability, and feedback designed to ensure that the enterprise adapts to changes in its substantial environment and that the work behaviour of its employees is measured by reference to a set of operational sub-goals (which conform with overall objectives) so that the discrepancy between the two can be reconciled and corrected for." MAS constitute an important and arguably the single most important part, of the total management control system (Hopwood 1972). This influential position has developed because the long tradition of financial reporting has necessitated the collection, assimilation and interpretation of comprehensive data on all aspects of a business. These procedures have provided an obvious and convenient source of statistical and financial information for management decision-making, couched in terms capable of acting as a common denominator for varied business activities. Accounting provides the various actors with a common language and framework for the negotiation of a shared reality (Cooper et al 1981) as well as a means for distributing power and managing the system.

In this study MAS are considered within the context of business activities, although MAS can provide important control mechanisms in many other human activities which would not claim economic rationality as the prime basis of behaviour. Indeed the traditional tenet of rationality, which implies that organisations seek to operate at maximum efficiency, is being increasingly

(1) Language may be construed as much more than a system of vocal signs. For example, Pettigrew (1979 p 575) refers to language as a means of typifying and stabilizing experiences as part of the process of creating culture in a new organisation: "By acquiring the categories of a language, we acquire the structured 'ways' of a group, and along with the language, the value implications of those ways".

questioned (Williamson 1964). Maximisation may be concomitant with perfect competition but Western economies are far from such conditions. One of the leading objectives of acquisition is to increase the share of market controlled by the acquirer, and this also can have the effect of reducing competition, although the acquisition may be publicly justified on the grounds of the potential for the realisation of 'economies of scale'. The true motives for acquisition may include other economic benefits such as gains from the acquisition deal itself, risk reduction, dissemination of skills, as well as behavioural motives such as the desire of managers for enhanced power, influence, reward, security, or even the pursuance of a quiet life (Jones 1982, pp. 15-21). The consequences of any single one, or combination of several of these motives, may influence the manner in which MAS are modified following acquisition. However, since these motives are largely concealed it will be necessary to return, for the purposes of measuring success or failure in the companies studied, to the over-riding maxim of economic rationality, as the one which subsumes the other objectives for acquisition.

IMPORTANCE OF MANAGEMENT ACCOUNTING SYSTEMS

The nature and importance of management accounting control systems may perhaps be better understood by considering five ways in which they influence an organisation:

1. organisational integration;
2. determination of organisational structure;
3. motivation;
4. decision-making; and
5. performance measurement.

Organisational integration. All but the very smallest companies are likely to have differentiated structures, that is, the various functions, such as administration, sales, production and technical services, will possess different modus operandi, time horizons, goal orientations and interpersonal attitudes and habits of staff. Such structures are beyond the control of a single manager or proprietor who, in a small business, is able to retain close control over most aspects of the business on a day-to-day basis by informal personal contacts. Devices are needed to integrate the organisation and these may include the management hierarchy, cross-functional teams, direct managerial contact in the form of meetings and informal discussions and finally, paper systems.

Lawrence and Lorsch (1967), in their research, demonstrated that the most successful firms, that is in terms of the traditional economic measures, were those which achieved the required differentiation and were then able to integrate the diverse units. The degree of differentiation and integration required differed as between industries, and firms within industries, according to the diversity and turbulence of environments faced. The most difficult integrative tasks arose when units had a high degree of inter-dependence and also operated in turbulent environments. Acquisition frequently introduces new inter-dependencies and, in consequence, creates considerable strain upon integrative mechanisms.

Lawrence and Lorsch (1967) believe that sophisticated controls are

certainly quite powerful integrative devices. That is, they furnish norms of performance and by enforcing standards, make co-ordination easier between interdependent functions like manufacturing and marketing. As companies grow in size or complexity, so the problems of integration increase and so does the use of devices, such as long-range planning (Denning 1972), capable of fulfilling an integrative function. Gordon and Miller (1976) also postulate that effective accounting information systems can serve as powerful co-ordinative devices, particularly if a high degree of organisational difference is present. They achieve this by providing a framework for the delegation of management authority. For example, the establishment of sectional budgets (Livingstone 1973), profit and cost centres, or the introduction of delegated levels of authority for capital expenditure, facilitate the growth of an organisation, assist integration and help to ensure that the objectives of sub-sections are consistent with overall company objectives and encourage joint problem-solving. It is within the context of rapid change or growth, such as accompanies acquisition, that the need for sound integrative devices is accentuated.

2.2 Determination of organisational structure

The role of management accounting controls within the context of the total control operative within an organisation was discussed earlier. But control itself may be seen as only part of a wider concept, namely, organisational structure. Child (1972) has defined organisational structure as "... the formal allocation of work roles and the administrative mechanisms to control and integrate work activities including those which cross formal organizational boundaries". In one respect, MAS may thus appear to be relegated even further in importance because they are part of administrative mechanisms, which are part of control, which in turn is but one facet of structure. However, further consideration of certain techniques which comprise MAS, such as delegated capital expenditure control, budgetary control and cost and profit centres, shows them to be devices which facilitate the "formal allocation of work roles". Thus MAS influence both functions of organisational structure as defined by Child, namely, the allocation of work roles and control and integration.

Although management control systems (MCS) might be expected to be designed to fit the organisational structure of an enterprise, in practice this does not always seem to be the case. The relationship between MCS and organisational structure has still not been clearly defined by organisational theorists. For example, in her later studies, Joan Woodward (1970) realised that technological determinism of organisational structure provided far too sweeping a generalisation and wondered whether organisational structure might be less a function of technology than of the managerial control system.

It seems intuitively incorrect that structure should be determined by MCS and yet it is not difficult to accept that the ability of MCS to adapt to structural change may inhibit the choice of structure; adaptability may not be a strong point of MCS. Accounting controls, in particular, have been accused of being somewhat inflexible and more consistent with the organisational forms associated with mechanistic or bureaucratic approaches to management than with organic approaches (Hopwood 1974, p.201). For example, Bruns and Waterhouse (1975) concluded that since budgets tend to structure the decision-making environment they may be particularly appropriate to structured, decentralized organisations and their use and the form of structure may be mutually reinforcing.

Research by Child (1976) produced ambiguous findings which pointed on one hand to financial controls contributing to lower performance because of their intrinsic inflexibility, possible de-motivating effects and because they focussed managers' attentions onto departmental considerations rather than on broader needs. On the other hand, he wondered to what extent such controls (i.e. manpower budgets and other cost controls) were instituted or intensified in response to poor performance, in an attempt to keep costs to a minimum and control a staffing situation that was getting out of hand.

There are perhaps two conclusions that can be drawn from organisational theory concerning the relationship between MCS and organisational structure.

First, that the relationship is very close and each is to some extent a function of the other; a conclusion reached by Golembiewski (1964) and expressed by Tricker (1976) as follows: "Organization structure will influence the management information and control system design; just as the management systems extant will reflect and reinforce the organization structure". Second, that further research along the lines of the contingency theory of MAS (discussed in sections 3.2 and 8), is needed to understand how MCS and MAS do and should react to internal and environmental pressures upon an organisation to modify its structure - pressures which intensify following acquisition. This should be aimed at achieving more flexible and adaptive MAS which can release organisational structures from any straitjacket which may presently exist.

2.3 Motivation. Some of the management accounting techniques which comprise MAS have been studied by organisational and behavioural theorists and shown to be capable of modifying human behaviour. Amongst those studied with particular reference to their motivational effects are budgeting, the reporting of actual performance against budgets, and the use of cost and profit centres. Such studies imply that behaviour can be affected in three main ways:

(i) By the participative processes adopted. There is considerable support for the proposition that participation, "defined as a process of joint decision-making by two or more parties in which the decisions have future effects on those making them" (French et al, 1960), can provide greater individual fulfilment which enhances motivation and increases the likelihood of congruence

between the aims of the individual and the goals of the enterprise. For example, McGregor (1960) favoured his Theory Y in which the organisation participated with top management in the decision-making process. Hofstede (1967, p.191) found that managers who participated in financial standard-setting were much more motivated to fulfil the standards set. Becker and Green (1962) stressed benefits, such as improved internalisation, from workers' participation in the formulation of budgets and standards. Schachter (1951) showed that participation affected morale in the form of cohesiveness - a feeling of unity amongst members of a group. Groups with higher cohesiveness were more willing to be induced to produce at either higher or lower levels of output as reflections of group sentiment.

However, the view in favour of participation is not unanimous and a cautionary opinion has been expressed by A.C. Stedry as follows: "... the assumption that participation is universally good, although unsupported by hard evidence, has become a cult." Dunbar (1971) in a review of studies by Stedry (1960), Vroom (1960) and Hofstede (1967) on goal setting concluded that "... participation in goal setting of itself, had little discernible direct effect on the goal levels set ...". Vroom and Yetton (1973) extended beyond personality traits, as prime influences in participation in budgeting, into a contingency view of participation incorporating situational factors such as organisational structure and context. They found that situational variables were relatively more useful than personal variables in explaining managers' participative decision-making.

Hopwood (1974, pp. 78-79) has pointed to the difficulties of reconciling such discrepant findings because many different meanings have been attached to participation involving very varied motives for its introduction and diverse organisational settings. He concluded, "While it appears that an increase in participation in decision making can often improve morale, its effect on productivity is equivocal at the best, increasing it under some circumstances but possibly even decreasing it under other circumstances".

Evidence from the empirical study in part II shows increased use of participative procedures following acquisition. But for the present it is the idea that certain MAS may be operated using, or modified by, participative processes that is important and that in so doing motivation and behaviour may be affected.

(ii) By the level of budget or standards set. In general, research evidence concerning the effects of budget difficulty upon motivation appears to be less controversial than the evidence on the effects of participation. Hofstede (1967, pp. 144-172) studied the use of budgets and financial standards and objectives for current operations, in six manufacturing plants engaged in very different industries in the Netherlands. Their contribution was measured in terms of the motivation of managers to better performance (as a contribution to profitability) and to their job satisfaction (as a contribution to their well-being). He found that budgets became stronger motivators as they increased in tightness but eventually reached a point after which motivation declined. Stedry and Kay (1966) reported similar findings, namely, that so long as difficult budgets were perceived as challenging but capable of achievement, they stimulated good performance. However, if managers perceived them to be over-ambitious or almost impossible the final performance was very poor. A number of later studies have, in general, confirmed that difficult goals, if accepted, will result in higher performance (Campbell and Ilgen 1976; Yukl and Latham 1978, Mitchell 1979), although Oldham (1975) failed to find this effect. Steers and Porter (1974) found that increases in goal specificity were consistent and positively related to performance, but the attributes of goal difficulty, participation, and feedback on goal effort were less consistently related to performance. They concluded that performance under goal-setting conditions seemed to be a function of three important variables: the nature of task goals; situational-environmental factors; and differences in individuals.

The concept that goal-acceptance is a prerequisite for performance and the possibility that performance can be influenced by situational and environmental factors bear important implications for post-acquisition control - some of these will be discussed at later stages.

(iii) By the approach to the interpretation of results. Communicating knowledge of performance can reward by reinforcing or extinguishing previous behaviour but withdrawal of knowledge can cause loss of motivation (Elwell 1938). Although based on limited findings, it appears likely that when feedback on performance is based on exception reporting then the emphasis can be on punishment because managers become pre-occupied with failure to achieve a standard rather than upon how satisfactory longer-run performance may have been (Birnberg and Raghul1967).

If feedback causes managers to feel threatened, they may become antagonistic towards the controls and divert their creative energy towards resisting, discrediting and finally rejecting the controls (McGregor 1967). Even where performance measures are instituted purely for purposes of information, they are probably interpreted as definitions of the most important aspects of that activity and hence have important implications for the motivation of behaviour (Ridgway 1956). Such changes in behaviour can easily occur following acquisition when staff of the acquired are anxious to please or feel threatened.

The way in which individuals themselves interpret performance results can also affect their motivation. A person's sense of competence can be reinforced by successful performance leading to a raising of aspiration. The stronger the success the greater is the likelihood of a rise in that level and this will also be affected by the subject's confidence to attain goals. Once one goal is reached a new, higher one is set (Child and Whiting 1954, Morse and Lorsch 1970). Such reinforcement can be a more consistent and reliable motivator than salary and benefits. However, the perception of information can also have negative effects. Dew and Gee (1973) found that a high proportion of middle managers saw the cost information system as existing to measure their personal efficiency or the efficiency of operations they supervised rather than to help them. This led to an enormous inbuilt emotional resistance to the whole idea of the budgeting system.

Additional human problems can be caused by the attitudes adopted by accountants when interpreting information. For example, Hofstede (1967) found

that finance people may obtain feelings of success by finding fault with factory people and that the use, by top management, of budgets as needles led to parochial behaviour. Richardson (1971) in writing on Weinstock's 1,000 days at GEC commented that:

Even the famous system of annual budgets and monthly operating reports should be kept in perspective. Budgets are not the key to running GEC ... there is no system for detailed amendment of each company's budget. By and large budgets go through. But the dialogue, the exchange of views at the budget meeting, the searching investigation and sometimes blistering criticism which Weinstock and Bond level at the assumptions behind each manager's budget, these are what count.

Research evidence suggests that the relationship between feedback and performance is a complex one affected by personality traits, prevailing organisational characteristics, and the activities concerned. However, little research has been carried out to determine the effect of these variables upon management accounting systems (Chenhall et al 1981, p.206).

Concluding remarks on motivation

Despite the complexities of motivation and of research evidence, which is sometimes only relevant to particular situations, or even contradictory, it is widely accepted that control systems have a considerable influence upon motivation. Indeed, Anthony (1965, p.113) suggested "The central function of a management control system is motivation; the system should be designed in such a way that it assists and guides operating management to make decisions and to act in ways that are consistent with the overall objectives of the organization". Birnberg (1967) suggested that management information systems are not solely technical communication systems enabling data to flow from one point to another but "systems through which "... top management informs and motivates lower levels within the organization". This view is perhaps more inclined to a manipulative and imposed form of motivation than Anthony's, which implies that, provided the systems are set up correctly, then operating management will display a greater degree of self-generated motivation.

2.4 Decision-making

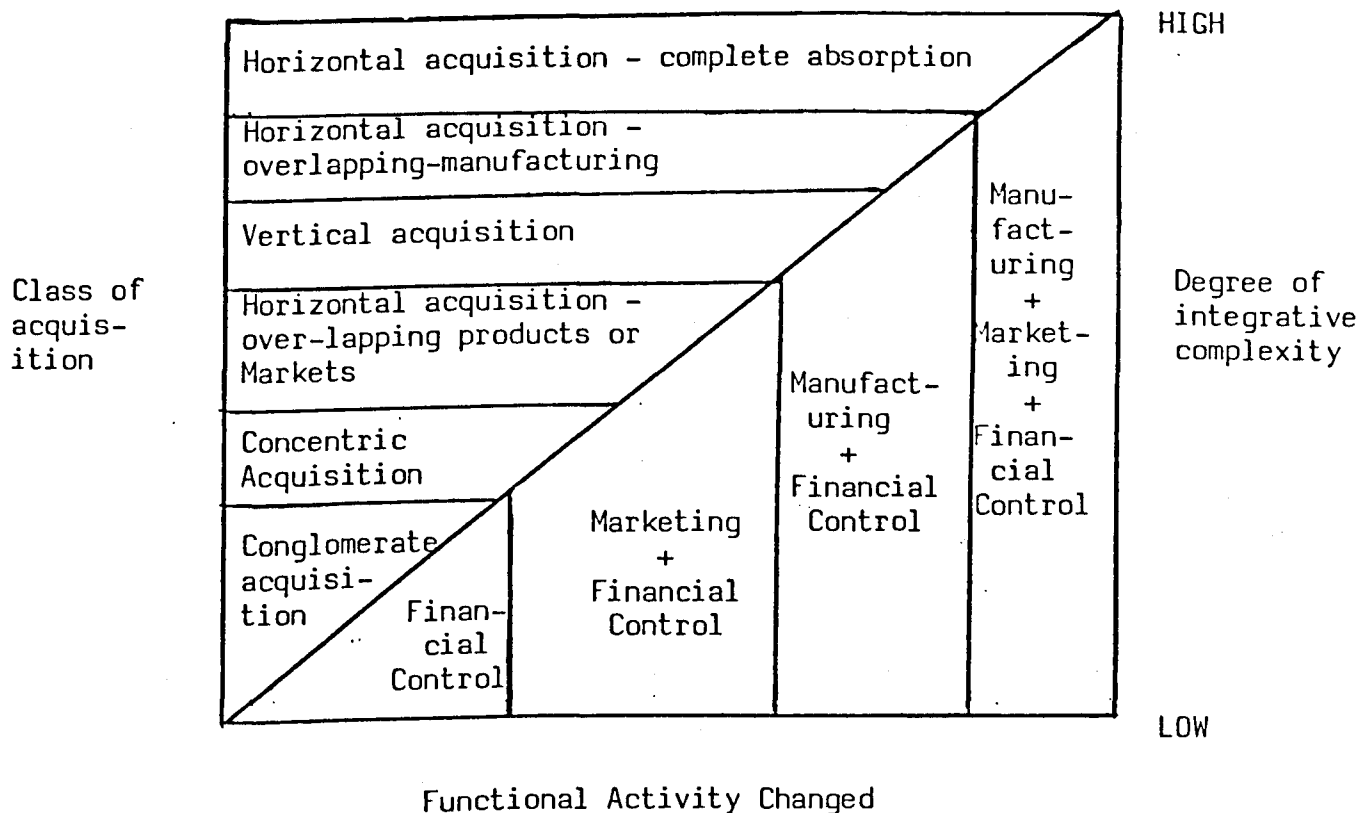
Information is the lifeblood of management and forms a vital input to the rational conduct of business activities. As expressed by Birnberg (1967) it is intended "... that the data selected and transmitted both serve as inputs to managers' and workers' decision processes and affect their behaviour". MAS, frequently unique to a particular business or unit within a business, have developed to meet the increasingly sophisticated information requirement of companies, created by accelerating changes in business environments and the demands of more financially literate managers. Early organisational theorists did not recognise that such variety in formal reporting relationships and control procedures might occur (Lawrence and Lorsch, 1967 p.10). It will be argued later that attempts to gain post-acquisition control often cause organisations to sacrifice unique systems in the pursuit of conformity and this introduces undesirable rigidity in MAS.

However, the need for management accounting information is likely to intensify following acquisition because uncertainty and the pace of change usually increase, regardless of environmental changes. As Galbraith (1972) has proposed "... the greater the uncertainty of the task, the greater the amount of information that has to be processed during the execution of the task".

The degree of change is likely to differ according to the objectives for acquisition - see figure 1.

Figure 1 *

Degree of integrative complexity according to style
of acquisition and functional change



For example, a conglomerate acquisition (the coming-together of firms in different businesses without common trading interests) is likely to involve least changes and therefore fewer decisions and perhaps a smaller increase in decision-making information. Operation of the acquired company may therefore continue relatively unaltered with the only bond being central provision of certain specialised administrative services, finance, and management control.

In contrast, horizontal acquisitions are frequently undertaken to release synergy by means of rationalisation, which may be far-reaching. This can involve the rationalisation of administration, product lines, distribution, marketing and manufacturing. Each of these stages is likely to be characterised by increasing difficulty. For example, it is usually more difficult to integrate manufacturing than it is to rationalise administration. When all these functions are subject to change, the management challenge is considerable and as the

* From Jones C.S., *Successful Management of Acquisitions*, DB Publishing, London 1982, p. 142.

complexity increases, so does the need for management accounting information to assist decision-making. Unfortunately the information flows of the two companies endeavouring to integrate may be incompatible. For example, the classification of costs may be different or the acquired company may not know individual product contributions or the cost of various distribution methods. Management then faces a dilemma whether to quickly implement changes in accounting systems which partially serve the immediate purpose, but may prove dysfunctional in the longer-term, or to proceed without proper information.

2.5 Performance measurement

Simon (1954) and his collaborators identified information as fulfilling three management functions: problem-solving - this has already been considered under the heading 'decision-making'; scorekeeping; and attention-directing. This last function combines features of performance measurement and decision- or action-taking. Cost accounting developed largely for the purpose of keeping score and of doing so in a more precise and responsive manner than financial accounts prepared at annual intervals. It has matured into management accounting as management has recognised the value of the information for decision-making purposes. Nevertheless, MAS still fulfil a most important role in score-keeping and measuring performance - a role greatly enhanced by the inclusion of forecasts alongside actual results. A majority of companies now operate some form of budgetary control with regular reporting and many companies have refined control by introducing rolling-budgets and/or periodic revisions of expectations within the traditional annual budget.

Performance measurement can be expected to assume increased importance following acquisition, because acquisition increases pressure to improve performance. This can occur for two reasons. First, acquirers sometimes assume that synergy (the idea that two plus two can equal five) will be readily released, leading to greatly enhanced profits. This view is being increasingly challenged because, even if potential synergy exists, realisation requires considerable effort and very competent management. Secondly, most acquirers

are very conscious of the dilutional effect upon earnings per share arising from the exit price/earnings ratio of an acquired company exceeding that of the acquirer, and are only willing to tolerate dilution for two or three years following acquisition. The result of either of these might be expected to increase pressure upon an acquired company to improve earnings to justify any premium paid over the market value of the shares and any bullish expectations of the acquirer.

2.6 Concluding remarks on the importance of MAS following acquisition

MAS are an integral part of an organisation's fabric, interwoven with organisational structure and processes to enhance organisational control (Waterhouse 1978). Their importance stems from the ability to facilitate organisational integration, to motivate individuals and groups, to assist decision-making and to provide measurements of performance.

These attributes may be linked through characteristics such as the delegation of authority, communication of objectives, participation etc. to each individual MAT, as illustrated in figure 2.

Figure 2

The links between organisational aims and MATs

Aspects of organisational structure which MAS influence

Enabling characteristics

	Organisational Integration	Motivation	Decision-making	Performance Measurement				
	Delegated Authority	Communication of objectives	Participation	Level of Budget / Target Set	Feedback/ Interpretation of results	Contribution to Problem solving - Long-term	Short-term	Performance measurement
Long-range Planning		✓	✓			✓		
Strategic Planning		✓	✓				✓	
Budgeting in Op. Coys	✓	✓	✓	✓			✓	
Participative Budget Setting	✓	✓	✓	✓			✓	
Formalised Capital Ex Appraisal & Control		✓			✓	✓		✓
Delegated Auth. C.Exp	✓	✓	✓	✓				
Monthly Accounts and Report					✓		✓	✓
Weekly Profit Report					✓		✓	✓
Variance Reports in Coys.	✓	✓	✓		✓		✓	✓
Cost/Profit Centre Control	✓	✓	✓	✓	✓		✓	✓
Marginal Costing							✓	
Weekly Cash Flow Reports					✓			✓
Internal Audit		✓			✓			✓
Number of MATs contributing to each function	5	9	7	4	7	2	8	7

The ticks in figure 2 indicate the primary enabling characteristics of each MAT - primary because each MAT may be applied with different emphasis in different organisations, or at different times within the same organisation. For example, LRP may be used to facilitate the delegation of authority or assist in performance measurement although its more usual roles involve the communication of objectives, participation and contribution to long-term problem solving. The thirteen MATs are those which will be considered in detail in the empirical study in Part II.

MAS can be seen to have a potentially wide-ranging influence upon the achievement of organisational aims. They form part of a delicate framework of control which assists the maintenance of organisational equilibrium by providing stabilising mechanisms in large organisations (Cyert and March 1963). Acquisition upsets this balance and creates the need to effect organisational integration, to re-shape organisational structures, and to provide information for making strategic decisions, whilst sustaining and perhaps improving day-do-day operations. Thus, new demands are likely to be made upon MAS and the success with which these demands are fulfilled may affect the outcome of the acquisition. As Kitching (1967) has suggested, "The nature of reporting relationships set up between parent and acquired companies, along with the organisational responsibilities and control systems established, is a dominant influence on the success or failure of the merger".

Although management accountants have traditionally identified controllable and non-controllable cost classifications, with its implication that management attention should be directed to controllable elements, the firm's survival is likely to depend upon its response to the 'uncontrollable' (Lowe and Tinker, 1977). For example, environmental influences have been assumed to be outwith the control of management. However, acquisition is frequently a response to meet threats from, or to assert influence upon, or control over, a company's environment. In such circumstances rational managers can be

expected to demand a full range of MAS capable of contributing to their task of integration and co-ordination, motivation, decision-making, and performance measurement. This confronts MAS with a severe test of adaptability and flexibility in environmental conditions of dynamic, and frequently far-reaching, change - conditions to which MAS design theory has traditionally paid scant attention - being pre-occupied instead with a closed system view of organisations.

In such circumstances there is a danger of going beyond the optimum degree of control and retarding successful growth (Ansoff and Weston 1962) - a situation which can also occur if individuals introduce excessive controls in an endeavour to enhance their personal power and influence (Mechanic 1962). Such ad hoc changes are likely to be introduced without regard for the inter-relationship between the parts being acted upon and the whole control system. Even if the criteria are identified for determining success of the part these may often, according to Churchman (1968), be the reverse of the criteria for success from the viewpoint of the whole.

If increased reliance is placed upon formal controls then the all-important self-controls will recede in importance adding to the stress and uncertainty which frequently accompany acquisition. Furthermore, increases in formal controls may cause people to feel threatened and be self-defeating; a point emphasised by McGregor (1967):

One fundamental reason control systems often fail and sometimes boomerang is that those who design them fail to understand that an important aspect of human behaviour in an organizational setting is that non-compliance tends to appear in the presence of perceived threat ... The question is not whether management believes the control procedures are threatening; the question is whether those affected by them feel they are ... In the presence of perceived threat human ingenuity will be exercised to defeat the purposes of the control system. The real cost, however, of such behaviour is the diversion of human creativity ...

The design and implementation of post-acquisition MAS merits careful attention because, appropriate systems can be of great assistance to management, whilst the wrong systems can lead to most undesirable consequences; and also because the formal languages of data and organisational systems legitimise the particular ways in which decision makers create and interpret representations of the world (Boland 1981).

INFLUENCES UPON MANAGEMENT ACCOUNTING SYSTEMS

The previous chapter considered the importance of MAS and suggested that a close inter-relationship exists between MAS and organisational structure, although this is difficult to define. If it were possible to define the influences, or variables, upon MAS then MAS could be designed specifically for a particular organisation which would be more effective than those evolved in a haphazard fashion. In the context of acquisitions it would then become feasible to modify existing MAS in acquired and acquiring companies with confidence that a satisfactory and perhaps optimal equilibrium could be achieved for the enlarged enterprise.

Although considerable research has been conducted into attitudes and other behavioural aspects of selected management accounting techniques, notably budgeting, far less has been done to identify principles which might determine the design of effective MAS. In the absence of strong theoretical bases it is likely that, at best, efforts have been directed at searching for the single most desirable method of generating data in order to promote effective decision-making and at worst, reflect only the wishes of one individual, without facilitating achievement of the objectives of the enterprise. In such circumstances, even apparently effective systems may be sub-optimal, determined either by trial and error or because the designer implicitly recognised relevant influences.

The development of theoretical bases for MAS is still in its infancy. Relatively recent attempts have recognised the close relationship between MAS and organisational structure and have adopted a contingency approach along lines closely similar to those pursued over many years by organisational theorists in relation to organisational structure. The development of a theory of management accounting explaining how it is affected by various contingencies and how it can be integrated into its wider context of organisational control mechanisms is recognised to be an important research task (Otley, 1980). A contingency theory approach would seem to offer the most promising prospect for the development of a theory of MAS.

3.1 MAS, universal or unique?

The contingency approach is based on the premise that there is no universally appropriate accounting system which applies equally to all organisations in all circumstances. It implies that as the specific circumstances of an organisation alter, so MAS should adapt if they are to remain effective. A number of writers and researchers had observed the variety, if not uniqueness, of management control systems before a contingency approach as such was suggested. For example, Anthony, Dearden and Vancil (1972) advocated that effective control systems were highly situational and systems should be tailored to the business, objectives and managers of each company. Tricker (1976) suggested "There is no universal satisfactory management control system, there are too many interacting variables".

However, Ansoff and Weston (1962, pp. 56-57) writing much earlier and specifically on mergers seemed more inclined towards a universalistic view of financial controls; "... some management functions have a substantial carryover. Financial controls are equally applicable in all categories. The nature of the controls would vary, but their application would be generally similar". Their study concerned mergers between companies within and across widely differing industry groups ranging from defence to consumer non-durables but did not specify which financial controls were being considered. They also reached a conclusion which may be construed as lending support to a contingency theory; "In the latter two cases, (one firm in producers' durables and the other in a consumers' non-durable goods industry) where only general policy control or general financial control is the appropriate degree of integration to be attempted between the merging organizations, the danger is in going beyond the optimum degree of control."

The movement away from a universalistic approach towards a contingent approach has occurred during the 1970s, partly in order to explain otherwise contradictory observations and partly because of the influence of the prior development of the contingency theory of organisations (Otley, 1980, p.416).



3.2 Contingency theory of Management Accounting Systems

The development of a contingency theory of MAS has proceeded in a largely piecemeal fashion by the identification of variables which appear to explicate the variety of MAS observed in organisations. Contributions have been made by organisational theorists who have referred, usually rather vaguely, to accounting controls as part of overall organisational control, and also by accounting academics who have realised that the organisational context of an accounting system is of fundamental importance to its effectiveness.

Figure 3

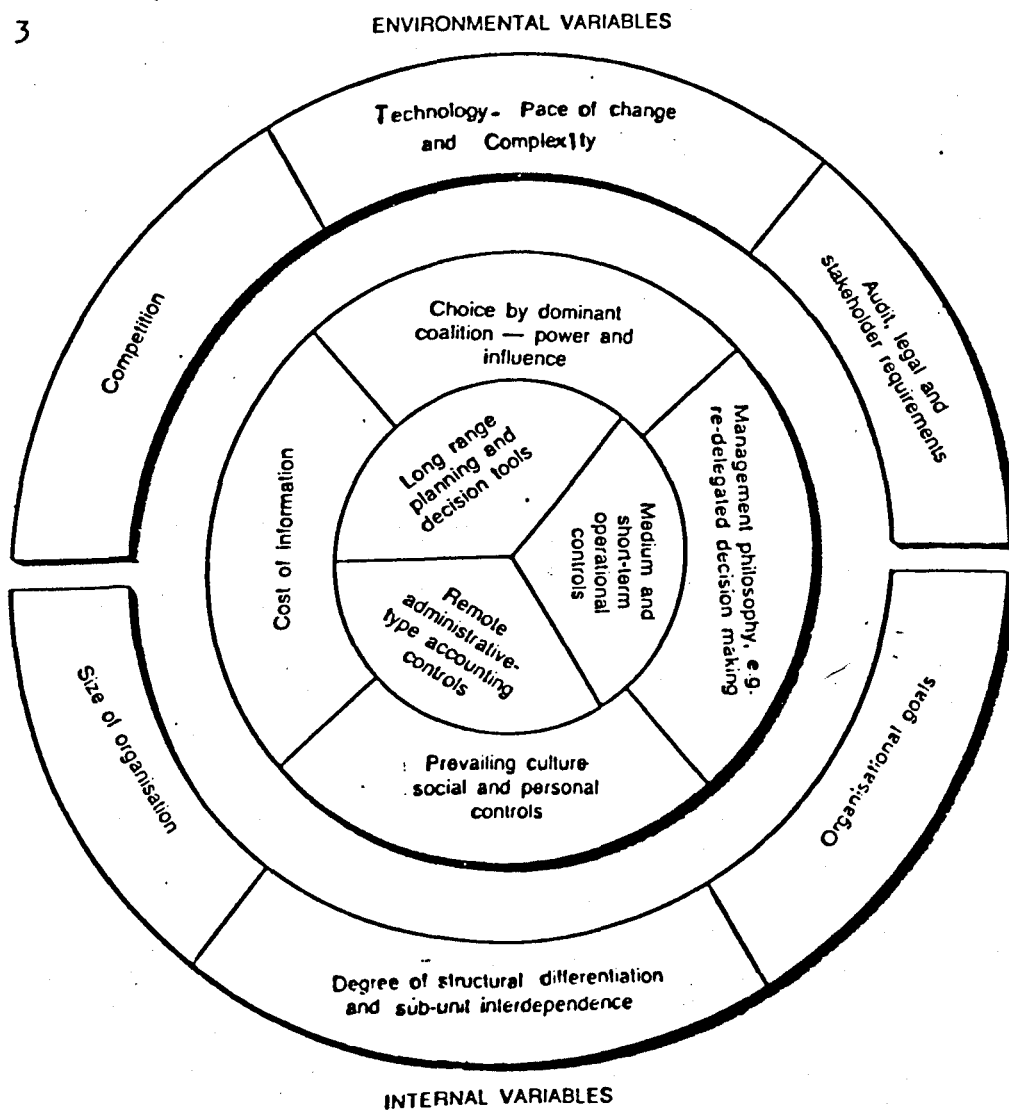


Figure 3 (adapted from Jones 1981) illustrates the contingent variables, which it is claimed influence, or should be permitted to influence, the design of MAS. They are classified into environmental influences, which occur to a large extent independently of action taken by the organisation, and internal variables, over which the organisation has more influence. The inner circle contains additional internal influences which bear very directly upon the choice of MAS. There is a danger, therefore, that these may predominate the selection of MAS to the exclusion of variables in the outer segments. For example, the choice of MAS may be dominated by one person or group of persons, and reflect their personal preferences rather than more relevant variables; or a prevailing culture of self-control may be diminished by the introduction of increased formalisation of controls.

At the centre of figure 3 management accounting systems are grouped into three categories: long range planning and decision tools; operational controls; and remote administrative-type accounting controls. Later in the study (section 10.2) these categories will be referred to as categories one, two, and three, respectively and the idea, that each attracts different intensity of behavioural sensitivity and affects different levels of the management hierarchy, will be developed. Each of the variables is now considered in greater depth.

(1) The interactive components of a control system proposed by Ansari (1977) include many of the variables shown in figure 3 and may be compared as follows:

	<u>Ansari</u>	<u>Figure 3</u>
OBJECTIVE	- Controlled variables or objective of system (task, technology, profits etc.)	Organisational goals. Coping with: technological change and complexity; competition; size.
STRUCTURE	- Information structure (measurements and communication.)	Long-range planning and decision tools; medium and short-term operational controls; remote administrative-type accounting controls. Cost of information.
SOCIAL SIDE	- Subordinate personality (goals, needs, aspirations) - Leadership style (managerial perception and reactions.)	Prevailing culture; social and personal controls.
SUPPORT	- Rewards (extrinsic and intrinsic)	Management philosophy. Choice by dominant coalition. Partially fulfilled by motivational characteristics of MAS; participation etc (see figure 2).

3.3 Environmental and internal variables

Contingent variables may be divided into two main categories; influences exerted upon the organisation by its environment, and internal variables. An organisation cannot simply evolve to reflect the goals, motives or needs of its members or leadership since it must bow, at least to some extent, to the constraints imposed by its relationship with the environment. Organisational decision-makers have identified the degree of change or environmental variability as of particular importance and the greater it is, the more the prevailing structure of the organisation needs to be adaptive. An adaptive structure is characterised by continual redefinition of roles with co-ordination being achieved by frequent meetings and considerable lateral communication. MAS, such as long-range planning, decision-making tools and operational controls are likely to be directly affected by and in turn facilitate or, if used inappropriately, inhibit, such structural changes. However, management information and accounting systems have been criticised because they continue to reflect a closed system view of organisation. For example, valuable management time and resources are expended investigating causes of variances which are not controllable within given cost centres. This can lead to parochial rather than more global problem solving such as might be achieved by an open system approach. An open system approach recognises the extensive interaction between an organisation and its environment in explaining behaviour (Ansari 1979).

However, it is probably not correct to assume that the environment is completely beyond the influence of the firm. Child (1972) has argued that views of environment as determinants of organisation structure fail to allow sufficiently for the manifestations of strategic choice. Organisational decision-makers may have opportunities to select the environment in which they operate and may command sufficient power to influence the conditions prevailing within the environment. An organisation which has achieved, or seeks to achieve by acquisition, some degree of monopoly or a protected niche in the environment might well be in a position to control or ignore environmental

contingencies (Starbuck & Dutton 1973). Such a firm has little to fear from better performing 'competing' organisations and can afford to accept a level of sub-optimal performance if it chooses not to match its structure to suit prevailing contingencies. In a similar vein Perrow (1974) summarises the position of large firms as follows: they are able to "select the environment they wish to deal with, create new environments if necessary, and change those that threaten to produce instability".

3.3i Competition. Competition is just one of the many factors that contribute to an uncertain or turbulent environment and may take the form of price, marketing or product competition. Khandwalla (1972) concluded from an empirical study of 92 American companies that competition, notably product competition, was an important promoter of the usage of sophisticated formal controls.⁽¹⁾ It may be that product competition requires more sophisticated controls because it can affect so many activities within a business. For example, the modification of a product or the development of a new product may start with a strategic planning decision and then involve research, development, manufacturing and marketing, and all of these activities require co-ordination and control. In contrast, price competition, although having a substantial impact on profit and liquidity may not appreciably differentiate the organisation.

However, the correlations were not high enough to suggest that competition in general was the principal phenomenon accounting for the use of such controls. These and earlier research findings of Khandwalla led to the conclusion that additional external phenomena - such as the rate of technological change - and internal phenomena - such as decentralisation, the size of the firm, and resources devoted to predictive activities may also affect the use of management controls.

(1) Nine formal controls were studied including six accounting-type controls. Five of these corresponded with those included in the empirical study described later, that is: the use of standard costs and cost variance analysis; marginal costing for decision-making and pricing decisions; flexible budgeting; internal audit; discounted cash flow evaluation of investments. The sixth accounting-type control, performance audit by outside auditors, was not correlated with competition.

3.3ii Technology. The importance of technology has been extensively discussed by organisational theorists as a determinant of organisational structure and, therefore, of control systems. However, the definition of technology has often varied. For example, Woodward (1965) considered it in a narrow sense as the physical machinery and non-human aspects of production as part of the environment. Burns and Salkner (1966) adopted an even wider concept embracing the stability and predictability of organisational tasks and conditions.

A further dimension of technology is the 'state of the art'. Manufacturing operations are subject to a search for new or improved technologies both within and outside an organisation. Conditions of rapid technological change will intensify both the search for, and implementation of, new methods if an organisation is to survive. Waterhouse and Tiessen (1978) considered this search to be central to the technological variable, rather than the environmental variable, although it may be argued that each is close to the other.

Perrow (1967) identified four distinct types of technology - routine, technical-professional, craft, and research. He theorised that each type of technology could best be served by distinctive organisational arrangements designed to suit the special needs of the task. Macintosh (1981), in compiling a contextual model of information systems, suggested that each of these four technologies seemed to match one of four information system styles. For example, routine technologies, controlled with organisational arrangements approximate to the classical bureaucratic model and by decisive individuals, seemed to be suited to a concise information system. Alternatively, high task variety, characterising the technical-professional technology, placed greater demands on the information system.

Successful standardised routine mass production has been identified with high role definition by means of rules and paperwork. Woodward (1965) started off in this direction but later (1970) questioned it. Hage and Aiken (1969) found that organisations with routine tasks were more centralised and formal than those with non-routine tasks. The complexity of tasks faced by an organisation has been found to influence financial control structure (Piper 1978): and task

variety, that is unexpected situations with frequent problems, to influence the management information system (Daft and MacIntosh 1978). Denning and Lehr (1972) found a strong positive relationship between the introduction of long-range planning and a high rate of technological change, and between the size of the company and the complexity of its organisation structure.

However, Child (1972 p.6) has suggested that "... rather than the technology possessing 'implications' for effective modes of organizational structure, any association between the two may be more accurately viewed as a derivative of decisions made by those in control of the organization regarding the tasks to be carried out in relation to the resources available to perform them". To this extent any association may explain the existing structure or what costing systems, for example, job costing or process costing, can be provided rather than should be provided. Thus technology may perhaps be regarded in the same light as competition, as influencing but not necessarily determining, effective structure and MAS.

.3iii Audit, legal and stakeholder requirements. These have been largely disregarded by writers on contingency theory, possibly because they relate mainly to external accounting reporting. But the impact of statutory reporting requirements upon MAS may not be neutral. In the interests of economy both use a single data source and the conclusions drawn and actions taken by management need to be seen to be consistent when judged by either criterion. For example, The Corporate Report (1975) suggests amongst other things, that external reports may contribute to the needs of user groups in "Assessing the effectiveness of the entity in achieving objectives established previously by its management, its members or owners or by society"; for "Evaluating managerial performance, efficiency and objectives, including employment, investment and profit distribution plans."; and for "Estimating the future prospects of the entity, including its capacity to pay dividends, remuneration and other cash outflows and predicting future levels of investment, production and employment".

Existing financial reports fall far short of these criteria and even where

companies have made special efforts to provide information to employees - a stakeholder group whose importance is being increasingly recognised - they have typically been a re-presentation of the information contained in published accounts. More enlightened reports have contained employment statistics of particular interest to employees and sometimes disaggregated performance results, but very little in the way of forecasts to enable employees to make judgements on employment prospects. In Britain at least, the pressures for a more open and egalitarian society are very evident and more resources will be needed in future to provide information and this information will increase in behavioural sensitivity as managerial performance and enterprise effectiveness is made more public.

3.3iv Size of organisation. Many studies have indicated a high degree of association between the size of an organisation and its structural characteristics (Weber 1947, Pugh 1969, Blau 1970, Child 1975); the normal thesis being that organisations grow in complexity and the degree of differentiation as they grow in size. Increased size enables more sophisticated roles to be introduced amongst the greater number of employees and increases pressure for autonomy within functions. Child (1975) found that in faster growing and more profitable companies the growth of specialised roles was particularly fast in such areas as financial accounting, production control, production methods and work study, personnel and general administration. Fragmentation requires increased co-ordination and control which is usually achieved by more standardised procedures and documentation. In such circumstances the incidence of direct intervention or problem-solving, on the basis of personal contact or 'chat', is likely to diminish as increasing bureaucracy requires that communication be in writing. For example, Child (1975) found that as higher performing companies grew they made more extensive use of sophisticated financial controls applied to a wide range of activities. The importance of MAS as means of facilitating integration was discussed in section 2.1.

There is, however, still considerable debate concerning the constraints

which size and technology imply for organisational structure and as Child (1972 p.7) has pointed out "... the relationship of size to organizational structure cannot, any more than that of technology, be regarded as deterministic."

3.3v Degree of structural differentiation and sub-unit interdependence. Figure 3 separates these two variables from organisational size because in some respects they qualify the nature of organisational size. Sheer size of an organisation may not necessarily be accompanied by increasing integrative complexity. It is possible, for example, to envisage a company which achieves rapid growth in turnover in a relatively low-technology business by expanding its existing production units. Once a certain size has been reached, at which differentiation in the form of specialised staff roles is introduced, further expansion may not greatly increase differentiation. Thus MAS may continue essentially unchanged and simply be required to cope with larger numbers.

However, if growth introduces new technologies or markets then the character of structural integration, and therefore of MAS, may require extensive modification. Similarly, if growth is accompanied by enhanced inter-dependence between sub-units then the integrative requirements are likely to alter. For example, growth by vertical-style acquisition, whereby a supplier becomes a member of the group, is likely to alter trading relationships and introduce new criteria for management decision-making in areas such as marketing, technical development and product sourcing. As suggested in section 2.4 accounting information systems will accordingly need to be modified to guide decision processes and to monitor subsequent performance.

3.3vi Organisational goals. Corporate goals or objectives can have far-reaching effects upon organisational structure. For example, Chandler (1962) found that "Decisions to expand the volume of activities, to set up distant plants and offices, to move into new economic functions or become diversified along many lines of business, involve the defining of new basic goals ... a new strategy required a new or at least refashioned structure if the enlarged enterprise was to be operated efficiently". Most successful organisations consider growth to be a desirable goal because it is likely to attract investors, fulfil the

personal ambitions of senior employees and attract better staff. Growth may be achieved by increasing market share, entering new markets which are complementary to existing activities, or by diversification; and these objectives may be realised by organic growth or acquisition. It is the latter of these, acquisition, which is likely to introduce the greatest uncertainty and turbulence because it represents instantaneous growth which is usually of significant proportions. Almost inevitably this introduces the need for organisational goals to be modified and for MAS to be reviewed to reflect any changes in organisational emphasis.

It is not only clearly defined organisational goals which may affect the decision process but also those which are not well specified (Cohen et al 1972). Plans and goals are frequently too systematic and rational. This may occur because of the adoption of thought processes commonly used in predictive analysis more appropriate to shorter-term analysis, such as budgeting; or because somewhat rigid accounting-type constraints are allowed to dominate the thought process. Useful goals are more likely to be somewhat unclear and useful plans to be somewhat disorganised, erratic, and uncertain (Moore and Tumin 1949; Schneider 1962). The realistic organisation is willing and able to modify, and if necessary replace, plans and goals in order to match and exploit environmental unpredictability (Beer 1972, 1974; Starbuck 1965, 1975).

The implication is that MAS should be similarly flexible to meet the changing situation. However, because by nature accounting systems are inclined towards order, certainty, and consistency, they may either leave areas of turbulence unserved or inhibit the willingness or ability of an organisation to respond as it should.

^{3vii} Choice by the dominant coalition. The influences upon MAS go beyond the contingent variables contained in the outer ring of figure 3, although these are the ones commonly related to the contingency theories of organisational structure and MAS. Those in the second ring are likely to affect MAS more intimately. For example, as already suggested the need for formal accounting-type controls can be reduced if strong social and personal controls are present

within an organisation. However, the existence of such controls may depend, not so much upon the culture of the organisation - that is the pervasive attitudes and norms of behaviour of those subject to control - but upon the personal preferences and choice of those who are able to exercise power and influence over the design of MAS.

Theoretical models which attempt to explain organisational structure in terms of variables such as size and technology, but ignore the role of strategic choice, have been criticised and it has been suggested that choice may be the all important determinant of structure (Child 1972). This possibility can perhaps be extended to the design of MAS where the preferences of organisational members become determining influences rather than economic or even administrative exigencies. For example, in the complex and uncertain decision environments which frequently accompany acquisition decision-makers may have only limited access to information and limited ability to process that information. Decisions cannot be made in a computational fashion, on purely economic grounds, because neither organisational goals nor means-end relationships may be clearly understood (Thompson 1967). Rather the decision-making process accords to a model of bounded rationality which was developed, in an organisational context, by Cyert and March (1963). They portrayed an organisation as a coalition of participants with disparate demands, changing foci of attention, and limited capacity to attend to all the problems faced. Choice may also be affected by such factors as: goal ambiguity (Cohen and March 1974); political processes (Pettigrew 1973); the preference for action concerning current, specific and well-defined non-routine activities, rather than for reflective planning and analysis (Mintzberg 1973); and by the problem of selecting what is relevant and important when coping with such uncertainty.

It is possible to hypothesize three ways in which choice may influence MAS. Firstly, there may be a dominant coalition which is able to exercise power over the choice of MAS. This coalition may not be the formally designated holders of authority but those who hold most influence at a particular time or over a particular set of circumstances. Lawler and Rhode (1976) concluded that

"... the financial control system of a corporation is demonstrably not isolated from the personality of the CPAs (Certified Public Accountants) or financial officers who design, maintain or use the system." In discussing his experiences at General Motors, Sloan (1964) stated that the decentralized reporting system of the company was a reflection of top management philosophy. Khandwalla (1970, pp. 39-45) has suggested that increased attention is likely to be given to cost reduction if the dominant coalition in a manufacturing firm experiences greater stress from the environment. Child (1972, p.16) has pointed to the possibility that a dominant coalition, placing a high value on the retention or attainment of a given structure, may well lead to an attempt to control or change the scale of operations. Thus size considerations become subservient to choice - a factor frequently present in acquisitions and in the current vogue of de-merging.

Secondly, influence can be exerted to cause the modification of MAS by filtering, or even by blocking the flow of information. Filtering can be used by individuals, even at relatively lowly levels in the organisational hierarchy, to enhance personal promotion strategies, by ensuring that only information which is favourable to the subordinate is allowed to reach his or her superior. Evidence of the adoption of these and other tactics as ways of resisting or modifying change was observed in the empirical study and will be discussed in Chapter 7.

Thirdly, influence may be exercised by the expert or group of experts responsible for the design and implementation of MAS. This authority may be derived from position or status in the organisation, or less formally because their normal role is one of handling data and providing information and it is therefore assumed that they possess expertise for designing MAS. Such management by default may place more influence in the hands of lower participants than a logical decision could possibly merit.

The incorporation of choice as a contingent variable is an acknowledgement that the design of MAS can be subject to political processes which reflect ideological values rather than being purely mechanical devices.

3.viii Management philosophy. This is concerned with managerial perceptions and reactions and hence with leadership style (Ansari 1977). It has a close relationship with the variables in the outer ring of figure 3. For example, decisions concerning what size an organisation shall be or what degree of structural differentiation shall be adopted are likely to both reflect and to influence the philosophy adopted by management. So far as MAS are concerned management philosophy forms a middle ground in which choices can be exercised between how MATs should be applied to accommodate exigencies in the outer ring (including environmental variables) and how management wishes them to be applied. Senior management may deliberately choose not to adopt all the characteristics of MAS normally associated with a particular structure. For example, in a highly differentiated structure segment managers may be encouraged to exercise complete authority over all production and marketing matters, but not be given authority to incur capital expenditure or to employ management accounting staff to prepare periodic accounts for the segment or to provide information for decision-making purposes. Instead capital expenditure authority may be retained exclusively by the chief executive and management accounting services provided centrally. Evidence of such strategies will be discussed later in relation to the empirical study.

3.3ix The cost of providing information. This variable seems to have been overlooked by contingency theorists as a possible influence upon MAS although management accountants have long been aware of the need for cost-effectiveness when designing control systems. The decreasing cost of computers can facilitate both the capture of cost data and their subsequent processing, but when human inputs such as forecasts, budgets, or interpretation, are required, costs are ever-increasing. Cost can influence the choice of centralised or de-centralised information provision, its frequency, accuracy, speed of availability and the format and quality of its presentation. Furthermore, the demands for information are continually increasing, thereby creating competition for scarce resources.

Generally centralisation reduces duplication of staff and facilitates more effective use of skilled staff. But there are penalties so far as the use of management accountants is concerned because centralisation inhibits their involvement as members of a segment management team and this may reduce the effectiveness of management decision-making.

3.3x Prevailing culture social and personal controls. The relationship between social, administrative, and self-controls was briefly discussed in section 1. In important respects this variable is the key to the success or failure of whatever MAS are selected. Even when MAS have been designed with due consideration for all the variables in figure 3, they may still prove to be unsatisfactory because they are unsuitable for those subjected to control. As expressed by Hopwood (1974) "Whatever their ultimate role, the final effect of plans, budgets and financial performance measurements depends upon how they influence, and in turn, are influenced by the social and self controls of individual managers and employees."

Social interaction between individuals within a group which takes place on a friendly and co-operative basis is likely to reduce the need for formal controls. For example, participative procedures (see section 2.3) can affect motivation and group morale in the form of cohesiveness which renders individuals more willing to modify their behaviour to reflect group sentiments. In contrast, demoralised staff may exercise less self-control, because their aspiration levels are low. They may perceive accounting-type information - such as cost centre variances, or budget prescriptions - as critical in nature rather than helpful. Attitudes can also be modified by the approach adopted by superiors to the interpretation of results (see section 2.3 iii).

Evidence will be considered later which suggests that differences in organisational cultures between acquired and acquiring companies had considerable influence upon the willingness of individuals in acquired companies to adopt changes in MAS.

The consensus opinion suggests that the nature of organisational control is dependent upon the type of organisational structure and that structure is contingent upon variables such as technology and environment. The implication is that MAS are situationally specific and need to be designed to meet the specific control requirements of specific organisational units (Waterhouse and Tiessen 1978). However, the development of a theory of management accounting, which explains how it is affected by the various contingencies and how it may be integrated into its wider context of organisational control mechanisms, is still in its infancy (Otley 1980). Indeed, the ideas may not be capable of refined application and the practical development of the concept may eventually founder because organisations are composed of many sub-systems and because there are so many variables which may prove to be incapable of refinement. This may lead to a similar conclusion to that reached by Child (1972, p.2) in relation to the contingency theory of organisation structure:

At the present time, some of the most influential models of organisation explicate little more than positively established associations between dimensions of organizational structure and 'contextual' (i.e. situational) factors such as environment, technology or scale of operation. These models proceed to the simplest theoretical solution which is that the contextual factors determine structural variables because of certain, primarily economic, constraints the former are assumed to impose.

As with organisational structure, it seems likely that "... it is impossible for a simplistic model to depict reality" (Kast and Rosenweig 1973). Nevertheless, the contingency theory of MAS has important implications for this study of post-acquisition control and these would seem to broadly be:

- i) Because acquisition creates instability in contingent variables, e.g. increased organisational size or modified environment arising from the competitive implications of the merger, then MAS must be modified to become or remain effective.
- ii) Because two companies are involved, MAS should be reviewed and may need to be modified in both companies.
- iii) A study of the contingent variables affecting each partner could improve the effectiveness of the MAS selected.

iv) If measures of the effectiveness of MAS could be devised, it might be possible to demonstrate matching between contingent variables and effective MAS.

These implications are explored further in the analysis of the empirical evidence (section 8) in support, or in denial, of the contingency theory of MAS. They also provide the basis for an improved approach to the design of post-acquisition MAS presented in section 10.2.

PART II

Describes the findings of an empirical investigation into the use of management accounting systems following acquisition.

INTRODUCTION TO THE EMPIRICAL STUDY

The empirical study was conducted during 1980-81 in thirty companies which had made at least one significant acquisition, or had been acquired, within the preceding three years. The acquired and acquiring companies were predominantly manufacturing enterprises, although a number were also heavily involved with distribution and to a much smaller extent with service industries.

The sample was drawn from two sources; firstly, from the tables of 'The largest acquisitions and mergers' presented in 'Times 1000' for the years 1977-8 to 1980-1. These tables covered only acquisitions of quoted companies although a wide range of purchase consideration was spanned and it included some quite modest acquisitions at the lower end. The second source was the working papers of the Department of Trade used to compile official statistics on acquisitions and mergers published in 'Business Monitor MQ7'. These included acquisitions of unquoted companies.

The sample was not taken randomly and was constrained by the desire to exclude very small acquisitions, which might not have even moderately well-developed MAS, but otherwise to provide a cross-section of different sized acquisitions, primarily involved with manufacturing. No attempt was made to provide a sample which was stratified according to the style of acquisition. These classifications, vertical, conglomerate, etc. were adopted only after the interviews had been conducted and the circumstances of the acquisition clarified.

Initially a letter was sent to the chairman or chief executive of the acquiring company inviting "... the co-operation of your company in a study into the way in which acquiring companies establish control over new acquisitions.. My particular concern involves the financial controls and management accounting systems and reporting employed... I should like the opportunity to talk to an executive who was involved with the acquisition and is familiar with more general issues such as the prevailing environment

and management styles and philosophies in both acquired and parent companies: also to talk to an executive, who may be the same person, about the accounting systems that were used during the post-acquisition phase and how changes were introduced ..."

Of the 69 chairman approached, just over 50 per cent agreed to co-operate and a further 22 per cent expressed interest in the study but declined to co-operate. They gave a variety of reasons including involvement with other research projects and the additional demands being made upon executives at that time because of deteriorating economic conditions. A small number of companies, which were willing to assist, proved to be unsuitable because they had previously held minority shareholdings in the acquired company through which management philosophies and accounting control systems might have been influenced; or because interviews proved difficult to arrange.

Forty-one senior executives who had been closely involved with the acquired company during the post-acquisition period were interviewed. Over half of these were financial executives and the remainder, some of whom were also qualified accountants, held wider management responsibilities. The duration of interviews ranged from one to six hours, with the average being about two hours. In most instances the questionnaires (see appendices 10 and 11) were completed by the interviewer during the interview to ensure consistency of interpretation. They were used as a framework to guide discussion and as a means of facilitating consolidation and the interpretation of results rather than in the rather more rigid manner often attaching to mailed questionnaires.

The questions called for a variety of response modes including: descriptions; ranking; ordinal scaling; and quantified information. The ordinal scales were largely on a four point basis; for example, 'not used'; 'of little importance'; 'of moderate importance'; 'of great importance'. However, because responses were recorded following discussion, and in the

presence of the interviewer, it was possible to accommodate additional responses, thus extending the effective scaling. For some questions six-point scales were specified.

The majority of respondents were very open and frank even on sensitive matters which reflected upon their own ability or that of colleagues. This provided a rich insight into post-acquisition problems and successes. Every effort was made to consider the management accounting systems within their organisational context. Thus, the first three sections of the questionnaire were primarily addressed to executives with knowledge of the wider issues affecting the acquisition and the final three to financial executives involved with introducing changes in MAS.

The acquisitions studied have been arranged into five categories according to the predominant nature of the acquisition - horizontal, vertical, conglomerate, concentric marketing and concentric technology. Sometimes stated rationales for acquisition reflected a combination of two or more categories. For example, conglomerate acquirers were often eager to justify the acquisition by identifying some area of technological or trading association, however remote. Where an acquisition represented diversification by introducing products, technologies and markets which were all substantially new to the acquirer, it has been classified as 'conglomerate'. This grouping is adopted to facilitate consideration of the hypothesis that acquisition of closely similar or very different companies might be accompanied by differential changes in MAS.

The acquired companies studied are classified in table 1 according to size, as measured by turnover in the year prior to the acquisition, and style of acquisition.

Type of Acquisition	Size of Acquired (Turnover £mil)						
	Total No. of Companies	1½>3	3>10	10>20	20>30	30>50	50+
Horizontal	5		4			1	
Vertical	2	1	1				
Conglomerate	7	3	2				2
Concentric							
Marketing	11	2	3	3	2	1	
Concentric							
Technology	5		2	1		1	1
Total	30	6	12	4	2	3	3

SCOPE AND CLASSIFICATION OF MAS

For the purposes of the study, management accounting control systems (MAS) include:

1. Planning procedures:

(i) Long range corporate planning - typically spanning 5 years.

(ii) Shorter term strategic planning - covering 2 to 3 years.

Although these are not, or should not be, mainly financial exercises, the thought and selection processes involved have much in common with management accounting procedures concerned with the development of predictive models.

2. Budget setting and budgetary control procedures.

3. Capital expenditure appraisal and control.

4. Operational controls:

(i) Monthly accounts and report.

(ii) Weekly profit report.

(iii) Variance reports in operating companies.

(iv) Control using cost/profit centres.

(v) Use of marginal costing techniques for management decision-making.

5. Planning and control of funds:

(i) Weekly performance report on cash flow.

(ii) Centralisation/decentralisation of funds control.

6. Internal audit.

PLANNING FOR ACQUISITION

Brief consideration of the extent to which acquiring companies studied target companies and planned for acquisition is relevant to this study, because it provides some indication of the quality of management practices in these companies. As already mentioned, the acquirers in the sample were larger companies. They tended to use relatively sophisticated MAS and probably represented a bias towards better management practices. Management literature suggests that careful planning is important for acquisition success⁽¹⁾ and it might be expected, therefore, that such acquirers would undertake planning and that this would enhance the chances of the acquired company proving successful under new ownership. In contrast, if the outcome was failure or relative failure, despite careful planning, then greater blame may be attached to the management of post-acquisition change.

Table 2 provides an indication of the depth to which acquiring companies studied the acquisition. It reflects a combination of the formal procedures followed during the development of strategic options, as part of a corporate plan, and of the more detailed studies subsequently undertaken into target companies and their environments.

Table 2 The depth of acquisition planning

	No formal Planning %	Minimal Planning %	Moderate Planning %	Careful Planning %	%
Horizontal		40	40	20	100
*Vertical		50		50	100
Conglomerate	14	58	14	14	100
Concentric		37	25	38	100
% of whole sample in each category	3	44	23	30	100

* small sample

- (1) Ansoff, in a study of 94 firms in the USA, found that 59 per cent of firms that exhibited extensive planning of acquisition programmes significantly out-performed firms that did little formal planning. They were also more consistent and their performances were more predictable, primarily as a result of avoiding failure. Ansoff, H.I. "Does planning pay?", Long Range Planning, December, 1971.

Of the companies investigated just over half (53%) undertook moderate or very extensive research of the target companies. This research was typically undertaken either by one or two staff specialists who formed a more or less permanent acquisition study team and drew upon other expertise as required, or by an executive seconded for the purpose of compiling that specific acquisition case.

Forty-four per cent of the acquirers undertook some form of less formalised planning. This approach depended more heavily upon intuitive decisions being reached as to the appropriateness of the acquisition rather than upon detailed and searching analyses covering all facets of a target company.

Conglomerate style acquisitions appear to have been less rigorously planned than horizontal, vertical or concentric acquisitions. Indeed, one such acquirer admitted that virtually no planning had been carried out and that the acquisition was purely opportunistic in response to an approach from a merchant bank seeking a suitable partner for its client. Some justification may be found for less rigorous planning of conglomerate acquisitions because the opportunities for rationalisation of operations and the release of synergy are rarely so great as with other styles of acquisition.

Although 93 per cent of the acquiring companies used corporate planning, only 45 per cent of those who regarded it as highly important also conducted moderate or careful planning of acquisitions. Possible explanations for this anomaly might be:

- i) The difficulty of procuring information about target companies other than that available to shareholders. Eighty-six per cent of the acquisitions studied were 'friendly' bids and some acquirers stated that they would never pursue an unwelcome bid. Reasonable co-operation could, therefore, be expected from the directors of such a target company, within the limitations of the City Code. (1)

(1) "The City Code on Take-overs and Mergers", Council for the Securities Industry, Feb. 1981, Rule 12. This effectively limits the information which can prudently be supplied to an interested bidder because any information so provided has, upon request, to be provided to other, perhaps less desirable suitors.

- ii) Limitations on the time during which to make a bid because a bid-contest develops. Three of the acquisitions were, or became, contested bids. Nevertheless, the bidders in these instances, all of whom regarded corporate planning as very important, considered that they were able to conduct moderate or careful planning of the acquisition despite the contest. The study, therefore, does not support this explanation although the length of time between the commencement of investigations and the appearance of a bid-contestant, and whether the company is the first bidder, can be important.
- iii) Absence of even modest co-operation from the directors of the target company. Only one acquirer pursued an opposed bid. Despite regarding corporate planning as important this acquirer was only able to compile minimal information about the target company. Following acquisition, more careful interpretation of the financial results revealed that profit forecasts prepared by the acquirer were too optimistic by a very significant amount.

Sound corporate planning procedures can facilitate acquisition because strategic options become more defined and specific acquisition candidates are more likely to emerge as planning proceeds. In such cases the bidder may already know the senior management team of the acquired company - 41 per cent of the non-conglomerate acquirers knew the chairman of the acquired company. They may also know its trading and product reputations, financial standing, and the potential for market growth. Such knowledge can increase the confidence of an acquirer but may cause an unwarranted reduction in the perceived desirability of conducting a deep study of the target company.

A more critical interpretation of the anomaly of a high level of corporate planning but much lower acquisition planning is that suggested by analysts of acquisition failure, namely the absence of planning. Whether this is a fair criticism or not the acquiring companies studied were large or relatively large companies with well-developed management structures and control systems which already possessed, or could readily summon, resources

for acquisition planning. It seems likely, therefore, that the findings of the study reflect what were believed to be better, rather than weaker, or poor management practices.

CHAPTER 5CHANGES IN IMPORTANCE OF MANAGEMENT ACCOUNTING SYSTEMS IN ACQUIRED COMPANIES

This section deals mainly with changes in MAS in acquired companies during the first two years following acquisition. Changes in each of the management accounting techniques (MATs) are described to assist an understanding of the pressures leading to their modification, and then all techniques are considered together to provide an overall indication of three things: the importance of MATs in acquired companies before and after acquisition; the extent of changes in importance of these techniques; and the speed with which changes were introduced in selected techniques.

Respondents were asked to name any other control devices which they considered to have been important in gaining post-acquisition control. The few that were specifically mentioned, such as monthly reports from the managing director, reports on working capital or daily information on orders received and output, were either responses to a particular management style or to an immediate problem facing the group as a whole. Each of the devices could be found, in other groups, as part of routine periodic reports. For example, it was not uncommon for the chief executive of a subsidiary company to report on significant operational and financial variations, problems or highlights as part of the monthly "accounting" report. It appears, therefore, that companies in the study achieved integration by modifying well-accepted MATs rather than by introducing unique systems.

Methodology. A full explanation of the methodology adopted is given in Appendix 1, however, a brief explanation may be helpful. Respondents were asked to consider the importance, to the acquired company, of each MAT both at the time of acquisition and at the time of the interview (this was approximately two years after acquisition). Their opinions were ranked on an ordinal scale ranging from '0', where a technique was not used and therefore of no importance, to '3' where a technique was considered to be of great importance. The indices, presented throughout this section, were derived from these subjective scales by comparing the actual scores with the maximum score possible for each MAT. The indices include the scores for all the companies included in the sample.

5.1 Importance of planning procedures in acquired companies

Table 3

Level of Importance		Long-range Corporate Planning	Shorter-term Strategic Planning
Increased	0 - 1	<i>f</i> 1	<i>f</i> 1
	0 - 2	3	3
	0 - 3	8	6
	1 - 2	1	1
	1 - 3	2	3
	2 - 3	4	1
		<u>19 (64%)</u>	<u>15 (50%)</u>
No change	0 - 0	3	8
	1 - 1	2	2
	2 - 2	1	3
	3 - 3	1	2
		<u>7 (23%)</u>	<u>15 (50%)</u>
Decreased	3 - 1	1	
	3 - 2	2	
	2 - 1	1	
		<u>4 (13%)</u>	<u>-</u>
Indices of Importance			
Pre-acquisition		32.2	22.2
Post-acquisition		71.1	58.9

f = frequency

Eleven acquirers (table 3), representing 37 per cent of the sample, considered the introduction of long-range corporate planning (LRP) to acquired companies not using the technique, to be moderately important, or very important (post-acquisition scores of 2 and 3 respectively). The eight acquirers according the greatest increase in importance to the technique effected the change quickly - taking, on average only seven months. This was usually achieved by the acquired company adopting parent company procedures at the start of the next planning cycle. Sixty-four per cent of acquirers sought to increase the importance of LRP and the changes were considered to be quite important, crossing more than two bands of importance - the maximum potential increase was three bands.

There was evidence that many senior executives, notably in acquiring companies, were becoming disenchanted with the usefulness of LRP because of the increasing economic gloom and uncertainty prevailing at the time of the study. This seemed to arise largely from a feeling of frustration that long-range plans

frequently proved to be far too optimistic and were rapidly becoming invalid. Furthermore, they were unable to see beyond a very restricted planning horizon - one expressed in terms of weeks rather than years - and were re-directing their energies to crisis management. In consequence, more emphasis was being placed upon MATs capable of increasing control over shorter-term operational affairs.

Nevertheless, many acquirers regarded the discipline of LRP with its procedures, such as "strengths and weaknesses analysis", to be a convenient method of appraising acquired companies - including the quality of management. The reactions of senior executives in acquired companies to the introduction of LRP are discussed in section 7.6*i*. Some acquirers used LRP to legitimise their desire to become involved with the 'thinking' processes of the acquired company without appearing to erode autonomy in respect of day-to-day operations. This was usually achieved by means of discussions during the preparation of the plan, between the senior divisional executive, under whose jurisdiction the acquired company was placed, and executives of the acquired company. It was also achieved by means of seconding an executive to advise on how to implement LRP - he sometimes acted as a catalyst during more detailed planning; also by means of more formal meetings, to review the final plan, at divisional or group levels.

Two of the three companies scored '0 - 0' joined groups which were slowly introducing LRP at group level and intended to eventually extend it to operating companies. One of the acquirers already used strategic planning and accorded it a high degree of importance, thus reducing the urgency to introduce LRP because the two processes had some common features. The third company became part of a group which used neither LRP nor strategic planning but relied more heavily upon annual budgets.

The minority of acquired companies in which LRP became less important were all large companies, with well-developed MAS, acquired by groups which were either smaller than themselves or regarded LRP as of lesser importance. These seemingly

retrograde changes were interesting because they lent credence to the idea that choice by the dominant partner may prevail even when it results in apparently reduced MAS sophistication. They also point towards rejection of the implication of the contingency theory of MAS that, following acquisition, with its associated increase in size and organisational complexity, MAS may need to be modified in both companies and that such modifications are likely to be in direction of increased sophistication. These ideas are developed in chapter 8.

The use of strategic planning (SP) was not so extensive as LRP and 27 per cent of the sample did not use the technique. In 50 per cent of acquired companies SP assumed increased importance and the average increase was similar to that for LRP, that is, it crossed more than two bands of importance. This reflected the introduction of the techniques to 10 companies for the first time.

5.2 Importance of budgeting in acquired companies

Table 4

Level of Importance		Budgets in Companies <i>f</i>	Participative Budgeting in Companies <i>f</i>
Increased	0 - 1	-	2
	0 - 3	4	6
	1 - 3	5	6
	2 - 3	7	2
		<u>16 (53%)</u>	<u>16 (53%)</u>
No change	2 - 2	-	2
	3 - 3	13	11
		<u>13 (43%)</u>	<u>13 (43%)</u>
Decreased	3 - 2	1 (3%)	1 (3%)
Indices of Importance			
Pre-Acquisition		67.8	55.6
Post-Acquisition		98.9	92.2

f = frequency

Despite the widespread use of budgeting, four of the acquired companies did not prepare budgets prior to acquisition. These companies were quite different and a brief description of three of them, each successful in its own way, may assist in understanding some of the influences which determine the use or non-use of controls such as budgets.

The first company was a modest-size (375 employees) public company producing flexible plastic packaging. It had a somewhat chequered history of fluctuating profits which was attributed to the highly variable nature of both demand for the finished product and of the prices of input materials. Nevertheless, it had grown rapidly by responding quickly to market opportunities and at the time of acquisition was still managed in an essentially entrepreneurial style. The finance director had, for several years, endeavoured to persuade his colleagues to introduce controls more appropriate to a public company, and in particular, budgets and capital expenditure controls, but his recommendations had not been accepted. The "entrepreneurs" considered that budgets and long-range plans were inappropriate in such a turbulent environment and that capital expenditure controls would reduce their ability to manage opportunistically. In consequence, the only form of forward planning was a cash projection covering six months. There was little doubt in the mind of the finance director that the company was greatly at risk, because a decision to incur major capital expenditure on manufacturing plant, which was subject to rapid technological advances, could be made without proper consideration of the trading and competitive outlooks. He felt that this unrestrained style of management was inappropriate for the stage of development and public status of the company. One outcome of the acquisition was pressure from the acquirer to introduce both budgets and long range planning. Some of the issues arising from this case, such as choice of MAS, conflict between control and autonomy, and problems caused by post-acquisition change, are developed in following chapters.

The second company which did not prepare budgets prior to acquisition was a relatively small (250 employees) private company which was the sole UK producer of a specialised foil for electrical windings. The acquisition arose partly because a Government report on the industry had advocated rationalisation and proffered financial assistance for this to be achieved, and partly from the desire of the acquirer to gain access to technological expertise not possessed.

The impression received of the acquired company was of a somewhat staid traditional company, run until a short time before acquisition by ageing directors, and surviving largely because of its unique market position. In consequence, or perhaps by deliberate choice, the directors had not felt pressed to introduce budgets, monthly accounting reports or capital expenditure controls. The company had existed on modest capital expenditure and the acquirer instigated complete refurbishing of the factory to raise the standard to that expected within the group and to create capacity for the extension of the product range. The alternative strategy would have been for the acquirer to set up a greenfields operation, a much slower strategy and, in the peculiar circumstances surrounding the industry, politically not expedient and more expensive. So the acquisition introduced far-reaching changes including the modernisation of plant, expansion of output, new marketing and pricing philosophies and these were accompanied by the management control systems of the highly sophisticated parent.

The third acquired company not using budgets was also a relatively small (140 employees) family-owned private company, manufacturing simple metal-formed products for the domestic retail market. Its greatest strengths lay in its distribution network, which had been built up by the founders of the company to a position of market leadership, and in its strong cash generation. Despite success, there had been a history of discord amongst the directors and the desire of one founder, who was also the financial director, to retire, led to the sale. Financial controls were limited to a product-costing system, which was rated as 'good' by the acquirer, and to keeping the bank balance in credit. There were no long-range plans, budgets, monthly accounts, stock or expense controls or even customer turnover records. The company was acquired by a medium-sized conglomerate group which, as a condition of purchase, introduced one of its own senior executives as managing director and removed the warring relatives from office. The new managing director was a qualified accountant and he rapidly introduced simple control and decision-making information using a micro-computer. He expressed the opinion that the company

had achieved its success by innovative marketing in a relatively stable environment - but had reached a point in its maturity where soundly based MAS were becoming essential for continued stability and growth.

In each of these three companies the use of budgets assumed the highest level of importance following acquisition. Increased importance was accorded to budgeting in 53 per cent of all companies following acquisition and this increase was quite considerable, crossing almost two bands of importance. Forty-three per cent of companies regarded budgeting as of great importance prior to acquisition and this attitude was endorsed following acquisition. The one company experiencing a modest reduction in importance was acquired by a somewhat smaller group with simpler MAS and, although systems were modified in both groups, they tended to reflect the philosophy of the acquirer.

Although it was beyond the scope of the study to consider detailed changes in budgeting, it emerged that increased importance was frequently accompanied by increased sophistication, largely because budgeting occurred within the context of a group. This affected the technical preparation of budgets in several ways such as the introduction of: budget profiles or target ratios; common economic assumptions for the group; more demanding written statements of budget rationales; and additional analyses such as monthly breakdowns where previously quarterly breakdowns had sufficed. Increased sophistication also occurred because of the screening procedures adopted. Most groups required operating companies to prepare and formally submit budgets which were discussed firstly at divisional level, and secondly at corporate-headquarter level, either as part of a divisional budget or sometimes as individual company budgets. Sometimes acquired companies found the economic assumptions, prepared for the acquiring group, to be inappropriate, or that budget profiles were unattainable. This created pressure to justify any variations adopted, indeed in some instances budgets were presented purely as 'political' documents with little or no belief that they could be achieved.

Many groups also requested monthly or quarterly revisions of annual forecasts and some required rolling budgets. These were prepared on monthly

or quarterly bases by dropping the earliest period and adding a new one, and might cover either one year or, occasionally, eighteen months forward. Naturally, increased sophistication placed additional burdens upon executives of acquired companies and their reactions and some of the problems that arose are discussed later.

In addition to the change in importance of budgeting in acquired companies the approach to compiling budgets also changed. With the exception of only one company the level of participation increased considerably, or remained at a level of great importance. The index of importance rose from 55.6 prior to acquisition to 92.2 (table 4). To some extent the responses reflected what acquirers believed to be the most desirable approach to budgeting rather than the level of participation actually achieved during the first two post-acquisition years. It was interesting that 56 per cent of companies, claiming increased importance for participative processes, had replaced the former chief executive of the acquired company - usually from within the parent group. This might have led to the belief that participation would become the behaviour norm. However, despite such changes, effective participation had to be gently nurtured and could not be artificially conjured up where it had not previously existed.

5.3 Importance of capital expenditure control in acquired companies

Table 5

Level of Importance	Formalised C.E. Appraisal and Control f	Delegated Authority for C.E. f
Increased	0 - 2	2
	0 - 3	9
	1 - 2	-
	1 - 3	5
	2 - 3	2
	<u>19 (63%)</u>	<u>18 (60%)</u>
No change	2 - 2	-
	3 - 3	11
	<u>11 (37%)</u>	<u>11 (37%)</u>
Decreased	3 - 0	1 (3%)
Indices of Importance		
Pre-Acquisition	51.1	50.0
Post-Acquisition	95.6	92.2

In common with long range corporate planning and budgeting, capital expenditure control using formalised procedures became much more important in acquired companies. Sixty-three per cent of companies (table 5) considered this to be so and the changes introduced were considerable, crossing in excess of two bands of importance. Eighty-seven per cent of companies scored importance at the maximum level of '3' and no companies considered importance to have decreased.

This was undoubtedly one of the key ways in which companies exerted control and several respondents admitted that the company was "neurotic" about capital expenditure control, regarding it as "important above all else". Within the formalised procedures for submitting capital expenditure projects for approval many groups permitted the use of different appraisal techniques and this is discussed in the section on conformity.

The introduction of formalised capital expenditure procedures facilitated the delegation of authority for the incurrence of capital expenditure. Sixty per cent of the companies considered that such delegation became more important following acquisition and the degree of change was considerable - on average, it crossed well in excess of two bands of importance. Acquired companies for which scores were 3 - 3, indicating the continuance of a high level of importance for delegated authority for capital expenditure, were either structured upon a group basis prior to acquisition, or were formerly members of a group. The greatest increase in importance (scores of 0 - 3) was in formerly independent companies. These were generally rather smaller ones, in which capital expenditure had been tightly and usually rather autocratically controlled, by the chief executive or board of directors. For some of these companies the introduction of formalised control procedures actually had a liberating effect because either, authority was delegated to executives who did not previously exercise it, or funds became more freely available.

The one exception where formalised procedures did not facilitate delegation of authority occurred following the acquisition of a group of

companies by a private group which was headed by an autocratic chief executive who was also the major shareholder. In this case the companies continued to use formal expenditure approval procedures but delegation of authority was eliminated and all capital expenditure approval decisions were made by the chief executive. This case provides a further illustration of how control philosophy and management style can be dominated by one person or small group of individuals even in large enterprises.

5.4 Importance of operational controls in acquired companies

Table 6

Level of Importance		Monthly Accounts f	Weekly Profit Report f	Variance Reports in Companies f	Cost/Profit Centre Control f	Marginal Costing Decisions f
Increased	0 - 2	-	-	2	1	3
	0 - 3	9	2	3	2	6
	1 - 2	-	-	1	1	2
	1 - 3	3	1	2	2	1
	2 - 3	3	-	4	2	5
		<u>15 (50%)</u>	<u>3 (10%)</u>	<u>12 (40%)</u>	<u>8 (27%)</u>	<u>17 (57%)</u>
No Change	0 - 0	-	25	1	-	1
	1 - 1	-	-	-	-	-
	2 - 2	-	-	3	5	4
	3 - 3	14	1	13	15	7
		<u>14 (47%)</u>	<u>26 (87%)</u>	<u>17 (57%)</u>	<u>20 (66%)</u>	<u>13 (43%)</u>
Decreased	3 - 0	-	1	-	-	-
	3 - 1	-	-	-	1	-
	3 - 2	1	-	-	1	-
	2 - 1	-	-	1	-	-
		<u>1 (3%)</u>	<u>1 (3%)</u>	<u>1 (.3%)</u>	<u>2 (7%)</u>	
Indices of Importance:						
Pre-Acquisition		60.0	7.8	64.4	75.6	47.8
Post-Acquisition		98.9	13.3	87.8	88.9	85.6

f = frequency

The study showed that acquiring companies regarded the preparation of monthly accounts and reports by acquired companies to be of very high importance (index 98.9, table 6). It was somewhat surprising that nine companies, representing 30 per cent of the sample, did not prepare monthly accounts prior to acquisition. Of the nine, four were public companies with annual turnovers ranging from £10m to £54m and five were much smaller, but nevertheless

significant private companies. One of the public companies prepared weekly profit reports and this practice was allowed to continue following acquisition. The other public companies prepared quarterly profit reports. There was understandably greater diversity amongst the private companies. Some prepared quarterly reports but two companies, with relatively modest accounting departments, relied upon their auditors to produce six-monthly accounts. In some cases the lack of monthly accounts was indicative of weak control, but in others, surrogate controls served the companies quite well. For example, two successful private companies operated sensitive factory costing systems which facilitated tight control over manufacturing margins. Another company involved primarily with installing and servicing electronic systems by means of a branch network, concentrated upon cash control by exercising strict control over stock levels, expenses and debtors.

Only four companies prepared weekly profit reports and one of these did so only for internal management purposes, and the information was not passed to the parent company. The introduction of weekly accounts in two companies, and the increase in their importance in a third, were attempts by newly appointed managing directors, introduced from the acquiring groups, to gain control over deficient and loss-making operations. The use of weekly accounts was thus more in the nature of fire-fighting rather than a general means by which acquirers endeavoured to establish control.

Some groups required an explanation of significant differences between actual and budgeted profit to accompany monthly accounts. The calculation of variances for operating management was a convenient starting point in providing such explanations and this pressure, combined with any critical comments from the acquirer concerning management controls, sometimes led to changes in variance reports. However, respondents were asked to comment upon the importance of variance reports used within the acquired company rather than any used for reporting to the parent company. Only 40 per cent (table 6) considered that such variance reports had increased in importance and 57 per cent felt that there had been no change. The majority of acquirers left the acquired to decide whether to use

variance reports for internal control purposes and tried not to interfere, providing that the management control systems appeared to be adequate. Variance reports did not appear to be an important means by which acquirers sought to achieve control. Indeed, there were instances of profit and loss accounts, using a traditional expense-type format, replacing standard cost and variance formats for group reporting purposes.

Cost and profit centres can be of considerable assistance in defining the scope of delegated authority. Reference has already been made, in the section on capital expenditure, to the desire of many acquirers to encourage delegation and the study suggests that acquirers encouraged companies not already using cost or profit centres to introduce them. Three companies (see table 6) had not previously used them and their importance was increased in a further five companies. Ninety per cent of companies already operated cost or profit centres and 66 per cent considered that their importance had not been altered by the acquisition. In common with variance reporting, responsibility for the use and structure of cost and profit centres within operating companies was largely left to the discretion of acquired companies.

It might be expected that the choice of whether or not to provide marginal cost information for decision-making purposes would also be delegated to operating companies. The results in table 6 suggest a rather different situation. Nine companies introduced the technique following acquisition and overall 57 per cent of the sample considered that it had increased in importance. There appeared to be two reasons for greater pressure to introduce marginal costing. First, marginal cost information was valuable for facilitating decisions affecting a group as a whole, for example, the determination of transfer prices and decisions on the allocation of production between different plants. Second, marginal cost information was sometimes needed to provide guidance, or justification, for product, and other rationalisation decisions.

affecting the acquired company. Soundly-based marginal cost information also provided a source of power for some executives eager to 'sort out the acquired company'. The utilization of accounting data as ex post justification, rather than informational input to decision-making, and also as a source of power, are discussed further in Chapter 9 dealing with 'reflections'.

5.5 Importance of funds control and internal audit in acquired companies

For many acquired companies funds control changed significantly. Some experienced welcome relief from cash strictures which had retarded growth and reacted by relaxing controls and regarding the acquiring group almost as a bottomless well of funds. Other companies which were 'cash cows' found that the group promptly removed all cash and that they had to join a queue to obtain approval for funds even for minor capital expenditure.

The centralisation of funds control was economically attractive because borrowings could be rationalised and interest charges minimised. Ninety-three per cent of the companies studied operated centralised control of funds. The degree of centralisation varied from the unusual approach used by one very large group, whereby subsidiary companies handled no cash and all payments and receipts were dealt with centrally, to the delegation of cash flow control to individual companies using local bank facilities. These facilities were usually combined with regular reporting and arrangements for off-setting bank balances of all companies in a group.

Only two companies in the study were permitted to operate fully autonomously and negotiate their own bank borrowing arrangements and interest rates. Both companies, although of reasonable size, were modest compared with the acquiring groups, which were large conglomerates. The business activities of the acquired companies were new to these groups and the funding arrangements reflected a philosophy of encouraging companies to remain autonomous. Nevertheless, constraints were placed upon borrowings by means of annual budgets and, in one case, by a group-imposed gearing objective.

As part of the mechanism to achieve centralised funds control groups typically required bank balances to be notified to centre either daily or weekly. Some groups allowed credit balances to remain with the local bank of the company and drew dividends at the end of the year, which removed part or all of the accumulated balances. Other groups withdrew all balances on a daily or weekly basis.

Flow of funds reporting. A statement of the flow of funds was a usual and important component of the monthly reports and accounts package for most companies and reference has already been made to the widespread use of these reports by acquiring companies. However, because of the emphasis placed upon centralised funds control, with daily or weekly reporting of bank balances, it seemed likely that flow of funds statements might be required more frequently than once a month - perhaps weekly.

Table 7

Level of Importance	Weekly flow of funds report to centre <i>f</i>	Internal Audit in Companies <i>f</i>
Increased	0 - 1	2
	0 - 2	3
	0 - 3	7
	1 - 3	1
	2 - 3	1
	<u>5 (17%)</u>	<u>14</u>
No change	0 - 0	13
	1 - 1	1
	2 - 2	-
	3 - 3	-
	<u>21 (70%)</u>	<u>14 (46%)</u>
Decreased	3 - 0	1
	3 - 1	-
	3 - 2	1
	<u>4 (13%)</u>	<u>2 (7%)</u>
Indices of Importance:		
Pre-Acquisition	35.6	11.1
Post Acquisition	41.1	42.2

f = frequency

The most striking feature of the responses was their divergence (table 7). Eighteen companies, representing 60 per cent of the sample, stated that weekly flow of funds reports were either not used or were of little importance (scores of 0 or 1) following acquisition. For the majority of acquired companies this represented little or no change in importance, that is, such reports were not prepared prior to acquisition.

Five acquired companies, which had not formerly prepared such a report, were required to do so and for four of these it assumed a high level of importance. Despite this semblance of tight control introduced in accordance with parent group practices, two of the four acquisitions required repeated injections of cash during the first two years to offset losses or to support out-of-control increases in working capital. A sixth company was not required to introduce a weekly flow of funds report although it was standard practice within the rest of the group, and was regarded as important. This situation arose because the chairman of the acquired company had insisted, as part of the acquisition deal, that his company be allowed to retain a high degree of operational autonomy following acquisition. This autonomy created problems for the acquirer in respect of both capital expenditure control and the control of group funds.

Weekly reports to central management were required, with moderate or high degrees of importance attaching to them, by 40 per cent of companies, suggesting that funds flow was more closely monitored by central management than was weekly profit. (The reader will recall that only three acquirers - 10 per cent - required weekly profit reports). Because such reports usually contained details of inflows and outflows and not simply a single cash balance figure, central management was equipped to exercise greater central control with a consequent erosion in delegated authority within operating units. There was evidence in some groups that central finance staff had direct access to operating companies to seek information upon, or indeed to criticise, variations between expected and actual cash flows.

Internal audit. Fourteen acquirers (table 7) considered that internal audit had increased in importance and twelve of these introduced it to an acquired company where it had not previously been used. Most of these acquirers provided internal audit as a group service rather than it being based in subsidiary companies. Some considered an early visit by the audit team to be a convenient way of assessing the quality of financial systems within acquired companies and of identifying differences in practices. However, for most acquirers the introduction of internal audit seemed to be more a matter of extending group conformity than the installation of a 'policing' function. Indeed, one senior executive, in whose division a newly acquired company was placed, shielded the company by asking internal audit staff of the group not to visit the company. It is doubtful if any or many of these companies regarded internal audit as an important means of achieving post-acquisition control. This view is further supported by the large proportion of acquirers (57 per cent) who either did not use internal auditing or considered it to be of low importance (scores of 0 or 1).

5.6 Assessment of the importance of all management accounting techniques

Each of the management accounting techniques has been considered individually and it is now appropriate to provide an overall assessment of:

- the importance of management accounting techniques before and after acquisition;
- the extent of changes in importance of MATs; and
- the speed with which changes in selected MATs were introduced.

5.6i The importance of management accounting techniques before and after acquisition

Table 8 Importance of Management Accounting Techniques in Acquired Companies

	Indices of Importance and (Ranking)			
	At time of Acquisition		Approximately 2 years after Acquisition	
Long-Range Planning	32.2	(10)	71.1	(9)
Strategic Planning	22.2	(11)	58.9	(10)
Budgeting in Operating Companies	67.8	(2)	98.9	(1=)
Participative Budget-Setting in Companies	55.6	(5)	92.2	(4=)
Formalised Cap. Exp. Appraisal and Control	51.1	(6)	95.6	(3)
Delegated Authority for Cap. Exp.	50.0	(7)	92.2	(4=)
Monthly Accounts and Report	60.0	(4)	98.9	(1=)
Weekly Profit Report	7.8	(13)	13.3	(13)
Variance Reports in Companies	64.4	(3)	87.8	(7)
Cost/Profit Centre Control	75.6	(1)	88.9	(6)
Marginal Costing for Decision-Making	47.8	(8)	85.6	(8)
Weekly Cash Flow Reports	35.6	(9)	41.1	(12)
Internal Auditing in Companies	11.1	(12)	42.2	(11)

Table 8 shows the indices ⁽¹⁾ of importance for each technique with the ranking in parenthesis. The rankings reflect the overall importance scores ascribed to each technique for all acquired companies. They do not represent rankings by respondents because it would have been unrealistic to expect respondents to place the thirteen techniques in rank order.

(1) Methodology - see Appendix 3.

For the combined companies all techniques assumed greater importance after acquisition.⁽¹⁾ Although some techniques declined in importance in a minority of companies (see tables 3 to 7) the declines were more than outweighed by the increases. Some techniques, such as monthly accounts and reports, budgeting in operating companies and formalised capital expenditure appraisal and control, became very important indeed (each with indices of importance in the mid-upper 90's range) and appeared to have been important devices for effecting post-acquisition control. Each of these techniques also increased in relative importance compared with other techniques. For example, monthly accounts assumed rank number one, having been fourth prior to acquisition, and formalised capital expenditure control moved from sixth to third in rank.

The high relative level of importance attributed, prior to acquisition, to certain operating controls such as cost/profit centre control and variance reports (ranked number 1 and 3 respectively) was overshadowed, following acquisition, by other techniques resulting in a fall to sixth and seventh in rank respectively. This perhaps suggests a change in emphasis away from controls for internal use by companies towards information systems capable of facilitating control by acquirers over acquired companies. However, this change in emphasis was also accompanied by increases in the indices of importance for these internal controls which occurred, despite frequent claims by acquirers of a desire to foster autonomy within operating companies. Thus acquisition seemed to create pressures upon companies to improve both internal operating control procedures, capable of sustaining increases in autonomy and the delegation of authority, as well as pressures to improve controls capable of fulfilling an integrative function.

Although the importance rankings altered for all but two of the techniques following acquisition the association remained very close to the pre-acquisition importance rankings and was statistically highly significant.⁽²⁾

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- (1) The increase in importance in MATs was statistically highly significant compared with the hypotheses that, following acquisition: (i) changes would not occur; or (ii) importance would increase, decrease or not change, with equal likelihood (Appendix 2).
- (2) The association was tested using Spearman rank correlation coefficient and with a value of .79 was significant at the one per cent level.

5.6ii The extent of changes in importance of management accounting techniques

In the previous section the importance of each technique, before and after acquisition was discussed; this section considers the extent to which the potential which existed to increase the importance of each MAT was exploited following acquisition.

Table 9 Change in importance of MATs (in acquired companies) compared with the potential increase in importance.⁽¹⁾

	Actual Change (2)	Index (3)	Ranking
Long-range planning	35	57.4	8
Strategic Planning	33	47.1	10
Budgeting in Operating Companies	28	96.6	2
Participative Budget-setting in Companies	33	82.5	5
Formalised Cap. Exp. Appraisal and Control	40	90.9	3
Delegated Authority for Cap. Exp.	40	88.9	4
Monthly Accounts and Report	35	97.2	1
Weekly Profit Report	5	6.0	13
Variance Reports in Companies	21	65.6	7
Cost/Profit Centre Control	12	54.5	9
Marginal Costing for Decision-Making	33	70.2	6
Weekly Cash Flow Reports	5	8.6	12
Internal Audit in Companies	28	35.0	11
Overall Index		<u>53.8</u>	

(1) Methodology. The index ⁽³⁾ measures the extent of actual change ⁽²⁾ in importance (see appendix 4) compared with the potential for change; that is, the number of points required to raise each score in appendix 3 to the maximum level of importance of '3'. Hence the index for long-range planning becomes:

$$\text{from appendix number: } \frac{(4) \quad (6 \times 1) + (5 \times 2) + (8 \times 3) - (3 \times 1) - (2 \times 1)}{(3) \quad (15 \times 3) + (5 \times 2) + (6 \times 1)} = \frac{35}{61} \times 100 = 57.4$$

(2) The sum of all the bands of importance crossed for all companies.

The rankings shown in table 9 bear a close resemblance to those in table 8, although this need not have been so. The techniques with the greatest potential for change (weekly profit reports and internal audit) were, by definition, the ones regarded as of low importance prior to acquisition (indices of 7.8 and 11.1 respectively as shown in table 8). Since they continued to be lowly ranked after acquisition it follows that the potential for change was not exploited as fully as it might have been. Conversely, the techniques with a high index, such as monthly accounts (97.2) and budgeting in operating companies (96.6) - see table 9, were the ones which moved up in rank as a result of a high level of exploitation of any potential for change. Thus, the indices in table 9 reinforce the findings of the previous section and show that considerable emphasis was placed upon exploiting any remaining potential in the importance of: monthly accounts (index 97.2); budgeting in operating companies (index 96.6); formalised capital expenditure control (index 90.9); delegation of authority for capital expenditure (index 88.9); and participative budget-setting (index 82.5).

By referring to figure 2 (section 2.6) the emphasis upon these techniques, excluding monthly accounts for the moment, may be interpreted in terms of the organisational aims which such changes were capable of fulfilling. Thus primary emphasis seemed to be placed upon: organisational integration, by means of delegated authority and the communication of objectives; and upon motivation, by means of participation and the level of budget targets set.

The emphasis upon monthly accounts was capable of fulfilling different organisational aims, namely: motivation - through feedback and interpretation of results; short-term decision making; and performance measurement (see figure 2). It appeared that monthly accounts and report was the primary means adopted to fulfil these aims; for, despite the increase in importance of cost/profit centre control and variance reports in companies, noted in section 5.6i,

the potential for change in these techniques was not nearly so extensively exploited (indices of 54.5 and 65.6 respectively, table 9). Furthermore, the potential to increase the use of weekly profit reports was hardly exploited at all (index of 6.0).

These different patterns of emphasis among the operational MATs revealed that the informational requirements of the acquirer - for example, monthly accounts and report - became paramount whilst information more intimately useful for day-to-day running of the business of the acquired company (for example, variance reports) became secondary, albeit such information also increased in importance. There seemed to be influences, other than purely rational ones, at work and some of these are considered in section 9.3.

Although it was difficult to compare the management effort required to improve one MAT with that required for another, some indication of the considerable effort, expended over a wide-range of MATs, is given by the 'actual change' column of table 9. This measures the total number of bands of importance crossed⁽¹⁾ for all the companies studied. Numerous executives mentioned the considerable pressures they had faced, following acquisition, to introduce corporate planning or to produce monthly accounts. Some of these reactions and the accompanying problems are discussed later. Over 51 per cent (appendix 14) of the total sample, which included all 13 MATs in 30 companies, experienced an increase in the importance of MATs⁽²⁾. This change was considerable, crossing well in excess of two bands of importance; that is, techniques not used before acquisition assumed moderate importance or techniques with little importance assumed great importance. Only 4.6 per cent of the sample showed decreases in importance, with an average decline of rather

(1) Each technique was capable of being increased over three bands of importance, that is, from a score of '0' (technique not used) to '3' (technique of great importance) - see also appendix 1 for detailed explanation.

(2) This change was statistically significant at greater than one per cent level (see appendix 2).

less than two bands of importance. Even these figures provide only a partial indication of the effort involved in adopting and improving MATs following acquisition, for respondents reporting 'no change' in importance may have expended considerable effort to comply with acquiring company practices concerning the style of reporting.

Stratification according to style of acquisition. The possibility that differing emphases might be placed upon MATs according to the style of acquisition was investigated by stratifying the findings in table 9. To achieve this an index was calculated for each MAT within each type of acquisition - horizontal, conglomerate, etc. - using the methodology described for the index in table 9. The indices were then ranked and coefficients of rank correlation were calculated comparing each style of acquisition with every other (table 10).

Table 10 Correlation matrix of indices of actual change in importance of MATs compared with potential increase in importance - by acquisition style

Style of Acquisition	All	Horizontal	Concentric	Conglomerate
All	1.00			
Horizontal	.810	1.00		
Concentric	.915	.621*	1.00	
Conglomerate	.895	.752	.675	1.00

The matrix indicates that the ranking of the indices of actual change in MATs compared with potential change in MATs remained remarkably similar⁽¹⁾

(1) All coefficients, with the exception of the one marked '*', were significant at the one per cent level (* was significant at the five per cent level). Vertical acquisitions were included in the 'all' category but separate coefficients were not calculated because of the small sample size (see appendix 5).

as between different types of acquisition. This may be interpreted in one of two ways; either that MATs assisted in fulfilling certain post-acquisition needs of organisations, for example, for integration, motivation, control, etc., and that these needs were perceived as closely similar for all types of acquisition; or, that acquirers were indiscriminating in the changes made to MATs and thereby failed to optimise any benefits that the selective use of MATs might confer. These ideas are developed further during consideration of the evidence for a contingency theory of MAS (chapter 8).

5.6iii The extent of changes in importance of MATs in acquired companies of different sizes

This section takes the ideas in the previous section a step further by considering how the importance of MATs altered in acquisitions of differing size. The acquired companies were grouped, according to turnover in the year prior to acquisition, into three arbitrary sizes: relatively small - turnover of £1½m to under £5m; medium - turnover of £5m to under £10m; and large - turnover of £10m plus.

The smallest company studied had a turnover of £1½m and employed 100 people. It placed considerable emphasis upon a wide range of MATs including long-range planning techniques which facilitated the delegation of authority. Whether such techniques were employed in other companies depended almost regardless of size, upon the philosophy of top-management. But it seemed likely that they became potentially useful in quite small enterprises because, as already suggested (section 2.1) "All but the very smallest companies are likely to have differentiated structures and ... such structures are beyond the control of a single manager or proprietor ..."

Table 11 Changes in importance of MATs according to size of acquired company (1)

* Cat. of MATs	Size in Turnover (£mil)	'Small' £1½ > 5	'Medium' £5 > 10	'Large' £10+
		Indices of Importance & Extent of Change		
Category 1 (Planning & Formal Cap. Exp. Controls)	: Pre-Acq	37.4	8.9	46.1
	: Post-Acq	74.7	82.2	69.2
	: Extent	60.0	80.5	42.9
Category 2 (Operational MATs)	: Pre-Acq	44.7	44.2	66.0
	: Post-Acq	81.1	85.0	84.3
	: Extent	65.7	73.1	53.8
Category 3 (Remote Administ- rative MATs)	: Pre-Acq	28.8	0	25.6
	: Post-Acq	31.8	43.3	47.4
	: Extent	4.3	43.3	29.3

* for detailed explanation refer to section 10.2;

Percentage of companies in each category: small (38%);
medium (17%); large (45%)

(1) The variation of the extent of changes in MAS between different sizes of companies was statistically significant at above the 1% level (Chi-square value 27.61).

In table 11 the 13 MATs, which have thus far been considered individually, are placed into three categories and these are described in section 10.2i. The indices of importance are calculated, using the same methodology as for table 8, but stratified according to the size of acquired companies. The indices of "extent of change" measure the extent of actual changes in importance of MATs compared with the potential for change - potential reflects the number of points required to raise each importance score to the maximum level of '3'.

The pre-acquisition importance of category 1 controls - planning techniques and formal capital expenditure control - was similar for the small and large companies (37.4 and 46.1 respectively). However, it was very low for the medium-sized companies (8.9). This anomaly could only be explained in terms of the choice that top management was able to exercise. For example, shorter-term plans, in the form of budgets, may have been preferred and may have been perceived as facilitating responsiveness to environmental changes. If this was so the change in management style, caused by acquisition, was dramatic because the index of importance rose sharply from 8.9 to 82.2 as 80.5 per cent of the potential for change was exploited.

Operational controls - budgeting, monthly accounts, cost centres, etc. - were closely similar in importance in small and medium-sized companies prior to acquisition (indices of 44.7 and 44.2 respectively). However, they were significantly lower in importance than in large companies (index 66.0). This occurred partly because techniques were not used, and partly because those which were used, were not accorded such high importance. Following acquisition, the indices of importance became closely similar regardless of the size of the acquired company (indices of 81.1, 85.0 and 84.3 for small, medium, and large, respectively). The underlying reason for this was conformity with the practices of the parent company and this is discussed in Chapter 6. The exploitation of the potential for change in importance of operational controls was relatively high for all sizes of company but was highest for medium-sized companies (index of 73.1 compared with 65.7 for small, and 53.8 for large companies).

Category 3 controls included weekly cash flow reports and internal audit but, in this analysis, excluded central funds control, the importance of which was not measured prior to acquisition. Because the use of these techniques was the exception rather than the rule, the pre-acquisition indices of importance were all relatively low, regardless of company size. Importance increased following acquisition and there was more emphasis upon the techniques in medium and large-sized companies (indices of 43.3 and 47.4 respectively).

Perhaps the greatest significance of the considerable changes in importance in MATs lay in the modification of management style. There was, for example, strong evidence of greatly increased formality characterised by the increased importance of corporate planning, capital expenditure control, budgeting, profit reporting, and cash and funds control. There was also evidence of increased delegation of authority and of pressure, albeit somewhat lower, to introduce changes in internal operating company controls. As will be seen later (section 7.3) the initiative to request changes in MAS was, in most cases, firmly in the hands of the acquirer. Thus the ability of managers in acquired companies to choose which MATs to employ was curtailed. Furthermore, there were pressures towards conformity with the MASs of the acquirer - these are discussed in Chapter 6.

5.6iv The speed with which changes were introduced in selected MATs

Table 12

	Period in Months between Acquisition and Introduction of Changes		Indices of ⁽¹⁾ Importance
	Mean	Standard Deviation	
Long-Range Corporate Planning	8.9	5.35	(71.1)
Short-Term Strategic Planning	6.7	2.41	(58.9)
Formalised Cap. Exp. Control	3.7	2.64	(95.6)
Budgeting in Operating Companies	3.6	0.96	(98.9)
Monthly Accounts and Reports	3.8	1.01	(98.9)

The higher the importance attached to a MAT, the faster any changes were introduced. Changes to techniques capable of providing control over operations and over delegated authority, for example, budgeting, formalised capital expenditure control and monthly accounts/reports, were introduced relatively quickly. This

(1) from Appendix 3

feature seems to lend support to the idea, already expressed, that some acquirers felt that acquired companies were not to be trusted and needed to be 'policed'. Sometimes changes were introduced with scant regard for the willingness or ability of management to prepare, for instance, a budget, or for the consequences of diverting attention away from running the business. Two acquired companies, which did not prepare budgets prior to acquisition, were asked to prepare one immediately following acquisition as a matter of high priority; others were required to re-budget because the existing budgets were below the expectations of the acquirer.

The control techniques considered to be the most important, namely budgeting and monthly accounts/ reports, were also introduced consistently quickly (standard deviation of .96 and 1.01 months respectively). This combination of speed and importance sometimes placed considerable strains upon acquired companies although some acquirers ameliorated this by requesting that as much information as possible be supplied, but did not insist upon full compliance with corporate reporting formats within the times stated above.

The average speed with which changes were introduced in capital controls (3.7 months) disguises two quite different philosophies on timing, namely, rapid change and deferred change. Over 42 per cent of the companies which placed increased importance on such controls did so within one month of acquisition and some agreed the controls before the acquisition deal was complete. Others emphasised the need, during an early visit to the acquired company, for any new capital expenditure commitments to be approved by the parent company. In contrast, some acquirers took six, nine or even twelve months to introduce group capital control procedures. Some of the consequences of delay are considered later (section 7.6ii).

Techniques concerned with medium and longer-term planning were introduced at a more leisurely pace and the timing of change was far less consistent than for operational control techniques; for example, the standard deviation for long-range planning was 5.35 months.

Not all respondents were asked about the timing of the introduction of centralised funds control because it was a practice more in the spirit of good

housekeeping rather than managerial control. However, because various reactions to its introduction are discussed later, it is pertinent to mention that most acquirers modified banking arrangements and introduced centralised control soon after acquisition, within days rather than weeks.

Stratification according to style of acquisition. One implication of the contingency theory of MAS is that acquisitions, between companies having more common characteristics, for example, sharing common markets and products (a horizontal acquisition), might employ MAS of such similar nature that any changes could be introduced quickly. This might apply, in particular, to MATs capable of facilitating operational control. In contrast, conglomerate-style acquisitions which may increase the uncertainty facing a group because of the addition of another unfamiliar activity, might quickly introduce long-range planning because it is a technique sometimes associated with increased turbulence. Appendix 6 shows the stratification of table 12 according to acquisition type. No evidence could be found to support either of the above hypotheses and any differences in the speed of change of the five techniques considered, as between different styles of acquisition, proved to be statistically insignificant. These findings may perhaps be interpreted in a similar manner to the stratification of changes in importance of MATs discussed earlier, namely, that acquirers lacked discrimination in both the timing and nature of changes introduced.

CHAPTER 6

CONFORMITY INTRODUCED INTO MANAGEMENT ACCOUNTING SYSTEMS IN ACQUIRED COMPANIES

The increase in both the number of MATs used following acquisition and in their importance was discussed in chapter 5. In this chapter the nature of these changes is considered further and in particular, whether the changes were in response to pressures for conformity with the practices and controls used within the acquiring company or group.

Conformity embraced: the documentation and paper systems used; the timing-for reporting, budgeting and corporate planning; and, the management review procedures adopted. Respondents were asked to indicate the degree of conformity ultimately proposed on a scale of 0 (no conformity) to 3 (high conformity). The total scores were compared with the maximum score possible for each technique employed following the methodology described in appendix 1. The resulting indices of conformity are shown in table 13.

Table 13 Post-Acquisition Conformity in Management Accounting Techniques between Acquirer and Acquired

	Companies Using Technique %	Index of Conformity *
Long Range Planning	90	98 (3)
Strategic Planning	73	95 (6)
Budgeting in Operating Companies	100	97 (4=)
Participative Budget-Setting in Companies	100	79 (9)
Formalised Cap. Exp. Appraisal and Control	100	89 (8)
Delegated Authority for Cap. Exp.	97	97 (4=)
Monthly Accounts and Report	100	93 (7)
Weekly Profit Report	13	75 (11)
Variance Reports in Companies	97	32 (14)
Cost/Profit Centre Control	100	39 (13)
Marginal Costing for Decision-Making	97	51 (12)
Weekly Cash Flow Reports	50	100 (1=)
Central Funds Control	83	100 (1=)
Internal Auditing in Companies	67	78 (10)

* Ranking in parenthesis

6.1 Conformity in planning

Long-range corporate and shorter-term strategic planning, with indices of conformity of 98 and 95 respectively, were subjected to a high level of conformity because most acquiring groups initiated and co-ordinated these procedures from the centre. This practice had much to commend it because corporate plans of individual companies could be expected to become more meaningful when related to the business objectives of the group and other subsidiaries. It could also facilitate co-ordination between the partners, particularly when trading inter-relationships were extensive, and assist in evolving the roles to be played by each company. However, the pursuit of conformity was not entirely straightforward and sometimes met resistance from senior executives. These difficulties were not confined to companies introducing planning techniques for the first time and were caused by changes in planning horizons, changes in the philosophy of planning, and changes in documentation. The problems are considered further in section 7.6ii.

6.2 Conformity in budget-setting and budgetary control

A high level of conformity (index 97) was introduced into budgeting procedures. This, together with the high level of importance attached to budgeting (see section 5.2), showed that the technique was regarded as a most important integrative and control device.

Although participative budgeting processes were encouraged within subsidiary companies, there was evidence that existing practices and procedures were generally retained for the preparation of budget details. It was the formal framework of budgeting that changed most and frequently became rather rigid. For example, in addition to procedural conformity, some groups issued economic forecasts upon which budgets had to be based, and about half imposed - with differing degrees of persuasion - budget objectives such as profit, cash flow or return-on-capital employed. In some cases this resulted in budgets which were low in credibility and towards which executives in the acquired company had no strong commitment.

6.3 Conformity in capital expenditure appraisal and control

All the acquired companies studied were required to use formalised procedures for capital expenditure appraisal and control following acquisition, although

complete conformity with group systems was not insisted upon (index of conformity 89). Nearly 27 per cent of companies were permitted to vary their procedures, although variations were largely confined to the choice of different appraisal methods such as payback, return-on-capital employed or discounted cash flow.

Conformity was highest in respect of the formal control aspects of capital expenditure. This was usually achieved by means of clearly defined levels of authority, by widespread insistence that capital must be budgeted or planned, and by the formal paper-systems used to obtain authority for expenditure.

A very high proportion of companies (97 per cent) delegated authority for capital expenditure to selected managers throughout the group, enabling them to incur expenditure up to defined limits without reference to a higher authority. Executives with greater seniority, for example those at divisional level, usually had higher limits than managers in individual companies. Some respondents mentioned the actual limits set for delegated authority and these varied considerably as between different groups. For example, local regional directors in a large multinational electronics group were able to commit up to £100,000 on a project without reference to higher authority, provided it was included in the business plan. In contrast, divisional directors in a medium-sized group in the plastics industry had discretionary limits of only £10,000. At subsidiary company level, limits for managing directors also varied considerably but were seldom greater than £5,000 and sometimes as low as £500.

The delegation of capital expenditure limits provided a mechanism which enabled groups to exercise overall control whilst at the same time providing some degree of autonomy and motivation to individual managers. Acquirers sought a high level of conformity (index of 97) in this matter but in so doing, many rode roughshod over the norms that had prevailed in acquired companies.

Although it was not a primary purpose of the study to consider the appraisal methods used, it seemed that non-discounting methods were by far the most popular, with discounted cash flow (DCF) methods being used mainly for large projects and usually in combination with other methods. Only about half the companies claimed to use DCF techniques, even on an occasional basis.

6.4 Conformity in operational controls

The high level of importance accorded to monthly accounts was discussed in section 5.4 and this, combined with a high index of conformity (93), implies that they were regarded as important integrative devices. There was evidence of considerable rigidity in the documentation and timing of monthly accounts and only four (13 per cent) of the acquirers permitted acquired companies to deviate to any appreciable extent from group practices. In these companies, conformity was sacrificed in order to foster autonomy on the grounds that trading interests or management styles were very different as between acquirer and acquired (two were conglomerate-style acquisitions).

There were, however, considerable variations in the size and complexity of group reporting packages. Some groups required relatively simple summaries comprising one or two pages of key information whilst others required very detailed packages of considerable length.

Some acquired companies conformed with group reporting requirements but continued to produce unaltered internal reports. This required a considerable increase in accounting effort which was largely duplicatory.

The other techniques associated with day-to-day operational control - variance reports, cost/profit centre control, and marginal costing for decision making - increased in importance but were not subjected to very great pressures towards group conformity. The indices of conformity were relatively low and ranged from 32 to 51 (table 13). Within these averages the conformity for individual companies was markedly different and tended to vary according to the style of acquisition. For example, acquirers effecting horizontal acquisitions sometimes desired to compare detailed product costs and introduced common cost classification and common cost/profit centre and variance analyses. Vertical acquirers sometimes needed information on cost structures and profit/contribution margins to facilitate group decisions on product sourcing. The evidence of association between the style of acquisition and conformity in MAS is explored further in chapter 8.

6.5 Conformity in 'remote' administrative controls

Remote administrative controls for the purpose of this study, comprise

techniques of control and co-ordination exercised from the administrative centre of a group. They include central funds control and internal audit and usually attract relatively low behavioural sensitivity; that is, they arouse fewer strong feelings and are less likely to modify human behaviour than other forms of control - a concept developed in section 10.2i.

Conformity was at its greatest in respect of funds control and weekly cash flow reports (each with indices of 100), although only 50 per cent of acquirers used the latter report (table 13). Acquiring groups were able, with some justification, to introduce these controls from the centre because they facilitated the efficient use of funds. Furthermore, the techniques could be introduced quickly and appeared least likely to give rise to resistance from acquired companies, although there were some notable exceptions (see section 7.6i).

The use of internal audit was less widespread than central funds control (67 per cent compared with 83 per cent - see table 13). However, conformity was quite high (index 78) because it was frequently organised on a group basis and extended to acquired companies as a matter of course.

6.6 Association between change in importance and conformity

It might be expected that acquirers would insist upon a higher level of conformity in MATs the more important each MAT became following acquisition. This idea was tested statistically by comparing the rankings of the indices of change in importance (table 9) with those of the indices of conformity (table 13). Although inspection of the rankings showed some evidence of association for three MATs, namely, budgeting in operating companies, delegated authority for capital expenditure and internal audit, there was no statistical evidence⁽¹⁾ for any overall association. This suggested that the introduction of a high level of conformity in a particular MAT did not seem to depend upon the increased importance accorded to that technique following acquisition, but rather upon the perceived usefulness of a technique as a means of achieving centralised control and co-ordination. It admitted a contingency theory explanation of post-acquisition MAS, insofar as acquirers may have been willing to permit acquired companies, having different organisational or environmental characteristics, to develop unique systems. These ideas are explored further in chapter 8.

(1) Spearman rank correlation coefficient -.02

THE CHANGE PROCESS

The importance of management accounting controls as a means by which human behaviour may be influenced and modified was discussed in Chapter 1. This influence is the outcome of the design of the MAS and of the emphasis placed upon certain characteristics such as the need to control or the need to motivate. The emphasis may alter from time to time without changing the underlying MAS. For example, the attitudes adopted at a budget review meeting, held at divisional or corporate levels, may be supportive or intensely critical. Behaviour may also be modified by changing the range of management accounting techniques used or the importance attached to individual techniques. The evidence from the study, considered in the preceding two chapters, showed such changes to be extensive following acquisition in terms of the increase in importance, the order of priority given to MATs, and the degree of conformity introduced.

There is a further important factor which can affect the success of accounting control systems and that is the manner in which changes are introduced. Boland (1981, p.110) points to the emphasis placed by Argyris and Churchman on the quality of a system design as a function of the process by which it is conceived and implemented, rather than on specific types of reporting procedures or evaluation techniques that constitute a good design for some particular circumstance. The design of MAS may be ideally suited to the organisation and its environment but the implementation may founder because the process of change is badly executed. This may be particularly true following acquisition when personal stress is increased because of tension, distrust, and uncertainty, and when attitudes are coloured by the circumstances of and motives for, acquisition.

This section considers some of the attitudes which may be adopted by individuals in acquired companies because these may influence the introduction of changes in MAS; it then considers the approaches adopted by senior managers to the introduction of change; change from the point of view of staff in the

acquired company; post-acquisition problems of an accounting and broader management nature; and the nature of resistance. Finally, the level of satisfaction with the change processes, as expressed by those responsible for change, is considered.

7.1 Post-acquisition attitudes. Although acquisitions can generally be expected to have far-reaching effects upon individuals, Handy(1969), in a survey conducted in the USA amongst nearly 1,000 executives in companies that had recently been acquired, showed that 90 per cent were psychologically unprepared for the aftermath and for the inevitable changes in status and organisational structure. Nearly 70 per cent were complacent, believing the merger would have little or no effect on their position and careers, whilst the reaction of approximately 20 per cent was just the opposite; they panicked and began looking for new jobs. Only 10 per cent of the executives surveyed had carefully considered their situation and were making thoughtful decisions about their futures.

Attitudes can also be affected by the previous success or failure of an individual. The more successful an executive is, the less likely he is to be prepared for changes and it seems that the very factors that make a man a success are apt to destroy him in the time of crisis. These factors include a strong sense of security, based on self-confidence and self-esteem, which has been developed by consistently high performance and rewards during his career. He has not had to face failure and does not possess the experience to cope with it (Handy 1969).

Following a merger between two banks in the USA, Costello et al (1963) found that successful managers, who might be expected to feel more assured about a change, reacted unfavourably and perceived the merger as likely to reduce their chance of promotion. Less successful people, on the other hand, saw the forthcoming changes as a second chance for recognition and advancement.

Age is also a factor which may influence post-acquisition attitudes. Costello et al found that older individuals held more favourable attitudes towards the merger of the banks and felt it could not influence their position adversely and might provide improved retirement benefits. The attitude of the younger group was sharply unfavourable because they feared that promotion or plans for salary increases would be blocked by the merger. High morale respondents, of all ages, were inclined to take a more favourable and positive view of the merger.

In addition to personal stress caused by tension, distrust, and uncertainty, there is frequently organisational stress. This is likely to increase with the complexity of integration and therefore to be greater in horizontal acquisitions involving the integration of financial, marketing and manufacturing functions (Jones 1982, p.142). Organisational stress can be caused by variations in the formal organisational structures leading, perhaps, to ambiguity in the role a person is expected to fulfil; or by differences in the prevailing management styles, resulting in conflict; or by modifications to the informal culture of the organisation, arising from changes in the level of formal control exercised over a person's work.

The circumstances surrounding an acquisition can influence attitudes. An acquisition consummated after bitter resistance will start with a considerable disadvantage. Personnel in the acquired company may feel defeated and antagonistic; a former competitor may now be the parent. They may see their interests threatened by change and their needs for security or the maintenance of power, may stimulate resistance (Pettigrew 1975, p192). The take-over battle may extend into the new partnership with pockets of resistance continuing for many years and the prevalence of a 'them and us' attitude.

Alternatively, the acquisition may be akin to a rescue operation. Individuals, especially senior staff, in five of the sixteen acquired companies consulted about MAS changes after the deal was completed (see table 14), felt vulnerable prior to acquisition because of the status of the company. One of

these five was a private company facing uncertainty because of potentially crippling capital transfer duties payable upon the death of the principal shareholder. Staff in another company were concerned that the entrepreneurs, who had founded the company and still managed it, would sell their interests at some undetermined time and that these might be acquired by an unwelcome suitor. A third cause for concern was continuing loss-making operations because of over-capacity in the industry. In such circumstances staff were frequently relieved to see the cause for apprehension resolved and welcomed the apparent security of a larger group. Despite the fact that another form of uncertainty was thereby introduced, the sense of relief from the immediate problem enabled them to face changes with a more positive and co-operative attitude.

The personal capabilities of staff can also influence reactions to change. For example, personnel who performed efficiently in one size of operation may be inadequate for expanded activities. Increased size may be accompanied by greater bureaucracy and remoteness of senior management. Additional personnel may be recruited with different attitudes and qualifications. The prospect of such changes may add to the apprehension of staff and make the change process more difficult. In contrast, those who see themselves as having outgrown their previous positions and who seek more power may look upon the changes as challenging and offering expanded opportunities.

So post-acquisition changes take place against a background of diverse human reactions. These reactions can be expected to alter, sometimes very rapidly and from one extreme to another, as signals are derived from contact with the acquiring company. People will tend to behave so as to remove cognitive conflict, or dissonance, with the least rearrangement of their existing beliefs. Thus a subordinate may reduce dissonance caused by differing self and managerial appraisals of his performance by either disagreeing or agreeing with the manager. If agreeing means reducing his own assessment downwards, it is likely to reduce his satisfaction and level of aspiration.

If he disagrees with his manager it will affect their relationship and the ability of the manager to motivate and lead the subordinate. This may cause the manager to rely less upon persuasion and more upon sanctions and coercion to achieve the required performance.

7.2 The approach to introducing change in MAS

Change which is imposed may not be self-maintaining and is more likely to be resisted. Co-operation is particularly important because the ultimate sanction against change lies with the staff of the acquired company. "No matter how much power a changer may possess, no matter how 'superior' he may be, it is the changee who controls the final change decision. It is the employee, even the lowest one, who ultimately decides whether to show up for work or not" (Leavitt 1958).

Resistance can be reduced by adopting a participative approach to change as suggested by Watson (1968) involving:

1. Participants joining in the diagnostic effort leading them to agree on what is the basic problem and feeling its importance and the need for change.
2. Adopting the project by a consensual group decision.
3. Proponents showing ability to empathise with the opponents, to recognise valid objections and to take steps to relieve unnecessary fears. This may result in some compromise and the acceptance by the proponents of a less than optimal strategy.
4. Provision for feedback of perceptions and for revisions to be made.
5. Participants experiencing acceptance, support, trust and confidence in their relations with one another.

The desirability of some participation, in the form of consultation before changes were introduced to MAS, seemed to be recognised by 70 per cent (10% + 53% + 7%) of the companies studied (table 14).

Table 14

	By imposition with little or no consultation	Following consultation		
		Before the acquisition deal was completed	After the acquisition deal was completed	Before and following acquisition
Number of companies (%) of sample	9 (30%)	3 (10%)	16 (53%)	2 (7%)

The minority of companies (17 per cent, i.e. 10% + 7%) which discussed changes prior to acquisition seemed to be recognising two things. Firstly, that changes in MAS were of sufficient importance to merit discussion at that stage despite the clamour of other issues relating to the acquisition deal itself. Secondly, they were permitting at least senior managers of the target company to raise any objections to proposed changes and were thus preparing the way for a smoother transition and establishing a precedent of participation. Whilst the target company was independent its bargaining position was much stronger. If any serious disagreements had arisen concerning the MAS to be adopted, or the style of management implied by the proposed changes, it was not too late for the acquisition deal to be abandoned or modified.

Three of the five companies which opened the channel for consultation did not follow it through after acquisition. The chief executive of one of these acquired companies insisted upon the company being left unchanged for the first post-acquisition year and this was agreed as part of the acquisition deal. This proved to be most unsatisfactory because, instead of creating stability, it fostered uncertainty and a serious fall in morale. Accounting and management controls were allowed to deteriorate and large and wholly inappropriate capital expenditure commitments were made by the assertive chief executive. At the end of the first year parent group control systems were imposed "as a matter of urgency in an attempt to restore control". This acquisition proved to be a 'failure' during the first two post-acquisition years and the longer-term

outlook was 'pessimistic'.

Table 14a Stratification of table 14 according to acquisition
'success' or 'failure'

	By imposition with little or no consultation		Following consultation					
			Before the acquisition deal was completed		After the acquisition deal was completed		Before and following acquisition	
Successful ⁽¹⁾	1	(20%)	-		2	(40%)	2	(40%)
Partial success/ failure	5	(31%)	2	(13%)	9	(56%)		
Failure	2	(40%)	1	(20%)	2	(40%)		
Not disclosed	1				3			
Total number of companies	9		3		16		2	

(%) = per cent of category

In the second of the three acquisitions, in which consultations concerning changes in MAS took place prior to acquisition, there was again evidence of a dominant personality. As part of the acquisition deal the chief executive of the acquired company became chief executive of the combined companies. He, together with a newly appointed finance director, imposed the MAS of the acquired, with which he was familiar, upon the acquirer with very little consultation. 'Consultation' was quite cursory in the third acquisition and a decision was quickly made and forcibly implemented, to ensure compliance with group procedures. Considerable problems arose from the precipitous introduction of change in both acquisitions and they only achieved partial success (see table 14a) in the first two post-acquisition years.

In contrast, the two acquirers which discussed MAS both before and following acquisition established an excellent rapport and reported very few post-acquisition problems. One was a vertical acquisition involving a

(1) See section 9.1 for a description of success/failure criteria.

relatively small and unsophisticated company joining a very large multi-national group; the other was a concentric-marketing style acquisition between two large and successful companies. In both cases a high level of conformity was introduced into MAS. Both acquirers, and the executives immediately involved with post-acquisition integration, had gained considerable experience and expertise from previous acquisitions. It was significant that, despite the great differences between the partners to each marriage, and the organisational culture differences thereby implied, both were successful (table 14a).

Fifty-three per cent of acquirers (table 14) waited until the acquisition deal was completed before discussing changes. This was frequently the most practicable course of action because pre-acquisition discussions were usually confined to broader issues concerning the joint future of the parties and, until an offer became unconditional, there was the possibility that the bid might not succeed. Although there was evidence that the nature and extent of consultation varied widely, many respondents in this category were aware of the importance of the personal relationships established between changer and changee. In most instances those interviewed had occupied one of these important roles. They expressed a willingness; to "persuade" changees that many of the accounting systems were similar and few changes were necessary; to "permit" individual styles and preferences to persist, although different from that of the group; to "compromise" on reporting formats and timing; to "reassure" the acquired, for example, that few changes would be made and over an extended period of time.

In contrast, the initial approach to introducing changes in MAS, adopted by the European controller of a large multi-national company which had undertaken a conglomerate-style acquisition of a modest sized British public company (having 300 employees), was one of imposition. However, this was strongly resisted by the chief executive of the acquired and a more conciliatory and consultative approach was then adopted. The chief executive demonstrated that the existing controls were sound and relevant to the type of company and its environment. This resulted in the parent agreeing that the group controls were largely inappropriate and that the existing controls were both satisfactory for the

acquired company and acceptable to the group.

Although 30 per cent of companies undertook little or no consultation, this did not necessarily mean that changes were imposed in a heavy-handed manner. Three of the acquired companies in this category had, in the judgment of the acquirer, inadequate control systems and two of them had inadequate senior management also. These features were recognised before acquisition and the introduction of new management became a condition of the offer. The new managers introduced MAS they needed to run the business and these were closely similar to the group systems. Two more acquirers in this category encouraged the acquired company to continue with existing control systems and introduced only minor changes which could be imposed without adverse reactions. Only one acquirer admitted using an abrasive style of imposition - in the words of the financial director "we wore the stripes and went in and told them what we wanted". This attitude was adopted after the acquired company had succumbed to an unwelcome and strongly-resisted bid.

It was possible that the level of consultation actually undertaken differed from that suggested in table 14. One case in particular came to light where the senior executive responsible for the acquisition believed that full consultation had taken place but the senior financial executive in the acquired company said the changes were imposed without consultation. It may be that both comments were true because consultation took place at a management level above the finance executive and a decision was simply passed down. However, if consultation was to be used as an effective way of gaining co-operation, it needed to take place at the level where change was to be actually effected.

Furthermore, the underlying pressures towards conformity, with the MASs of the acquirer, may have reduced the level of real participation. Although some willingness was expressed by respondents to accept compromise in the short-term, the longer-term intention of the changer was frequently one of conformity. Consequently, there was often reluctance to recognise

and to act upon valid objections once the initiation of group systems was started. Some of the complaints will be considered later - they included "conflicting time-horizons" and having to "compete for capital". Such inflexible attitudes, which were often adopted by accountants, discouraged the conditions of acceptance, support, trust and confidence between changer and changee, which were required for the successful implementation and self-maintenance of change.

7.2i The relationship between consultation and success

The findings suggest that there was some association between the use of consultative approaches to the introduction of changes in MAS and the success of the acquisition. For example, four of the five most successful acquisitions adopted this approach (table 14a) and two of these undertook consultation both before and after the acquisition deal was completed. This may be interpreted in one of two ways: either, that the style of introduction of changes in MAS was of such importance that it could affect the outcome of the acquisition; or, that capable and experienced managers-of-change adopted participative procedures because of the benefits thereby conferred. However, three of the five worst failures occurred despite the use of consultation. Naturally there were many factors, including environmental influences which were largely outside the control of management, which contributed to success or failure. Consultation did not ensure success, it merely paved the way for other factors which engendered success, including high morale and motivation.

7.2ii The relationship between consultation and acquisition styleTable 14b Stratification of table 14 according to acquisition style

	By imposition with little or consultation	Following consultation		
		Before the acquisition deal was completed	After the acquisition deal was completed	Before and following acquisition
Horizontal	1 (20%)	1 (20%)	3 (60%)	
Vertical		1 (50%)		1 (50%)
Conglomerate	2 (29%)		5 (71%)	
Concentric marketing	6 (55%)	1 (9%)	3 (27%)	1 (9%)
Concentric technology			5 (100%)	
Total no. of companies	9	3	16	2

The pattern of consultation (table 14b) differed significantly⁽¹⁾ between the styles of acquisition. However, the variations were probably the result of choice by managers introducing change, or dictated by the circumstances of the bid, rather than determined by the style of acquisition. Apart from this explanation it is difficult to find any logical reason why, for example, changes in MAS in six of the eleven concentric-marketing acquisitions, were introduced with little or no consultation. The outcomes of these acquisitions were most unsatisfactory; three were partial successes/failures and two were failures - no outcome was disclosed for the sixth acquisition. Furthermore, the level of consultation contrasted sharply with that adopted for concentric-technology acquisitions for which there was 100 per cent consultation.

(1) The Chi-square test gave a value of 349.3 which was statistically significant at greater than the one per cent level, thus leading to rejection of the null hypothesis that no differences in the approach to consultation would occur for different styles of acquisition.

7.3 The initiation of change

The initiative to introduce change almost always came from the acquiring company, although senior executives in acquired companies, notably financial executives, sometimes precipitated action by desiring to know quite quickly what changes were anticipated. This may have stemmed from a genuine concern to tackle any changes as quickly as possible, thereby maintaining momentum of the company and restoring equilibrium. However, in some cases it was indicative of anxiety concerning the outcome of the acquisition - anxiety not allayed by pre-acquisition consultations.

To what extent the senior executive of the acquiring company, under whose jurisdiction the acquired company was placed - for example, the divisional chairman - paved the way for staff to liaise with their counterparts concerning change was not specifically studied. However, two contrasting styles did emerge during the interviews. In the first, a divisional chairman felt strongly that preserving the autonomy of the acquired company was highly important. He adopted a protective attitude and personally controlled all initial contacts between staff of each company. In addition to this filtering, he prevented certain head office staff specialists from visiting the acquired company. By so doing he enhanced his personal power and became the prime instigator of change. Despite these precautions, changes were introduced in MAS and some proved to be most unwelcome.

The second style, and probably that most commonly adopted, was for a small number of senior specialists from the acquirer to be introduced to their counterparts in the acquired. This was done quite soon after acquisition and the specialists were then left to develop relationships with the acquired company and to introduce their subordinates as appropriate.

The chief executive of six of the acquired companies studied was replaced, soon after acquisition, by an executive from the parent company. All of these cases involved special problems, such as retirement, resignation or termination of the former incumbent as a condition of the offer or because of unsatisfactory

trading performance. The newly appointed executives, four of whom were qualified accountants, became the main instigators of change. Their sphere of influence also included changes in MAS and in most instances these meant conformity with group practices.

In other acquisitions, senior finance executives of acquiring groups played leading and sometimes very dominant roles in initiating changes in management accounting controls and systems.

The approaches to change were quite varied and reflected both the style of group management and personality traits of the individuals. A surprisingly large number of respondents claimed to have adopted a very relaxed approach to change. For some this style turned sour when things began to go wrong and they had to introduce emergency action to restore some semblance of control. In other cases the seemingly casual approach may have been a means of disguising the extent and rapidity of the changes they had been determined to impose. A minority of respondents were quite straightforward and blunt - they knew what was needed for control purposes and were quite prepared to remove any obstacles to achieving it.

The approach to the initial meeting also varied. Some preferred to confine it to an informal discussion, perhaps over a meal, with one or two top finance staff, whilst others preferred to hold a meeting with all senior staff. Sometimes the meeting was a forum for discussion and participation and sometimes an efficient means of telling staff in the acquired what changes were to be implemented.

A number of respondents paid at least lip-service to the need to "take people along with you" as a determinant of the speed and success of change. However, "success" for parent company finance executives seemed to be represented more by the achievement of speedy compliance with group accounting practices, than with the evolution of MAS best suited to the acquired company, or with the ability and willingness of staff to first feel the need for change. This may go some way towards explaining why so many problems occurred. Untimely and inappropriate changes in MAS seemed to cause adverse reactions which rippled beyond the accounting function.

7.4 Level of assistance to introduce changes

Table 15

	Using Existing Staff of Acquired	Degree of Assistance from Acquiring Company			Using Staff on a full-time basis from Acquirer
		Low	Moderate	Considerable	
No. of Companies	9	8	3	2	8
% of Sample	30	27	10	6	27

It was desirable for changes in MAS to be introduced by accounting staff and managers who were familiar with the business and who, for the changes to be sustained, were committed to them. Consequently the usefulness of outside assistance was somewhat limited. There was, for example, little point in seconding a head office staff specialist to an acquired operating company to prepare the budget. This occurred in one of the companies. The efforts produced a budget in group format, which could be consolidated with other budgets, but towards which the management of the acquired company had no commitment; they dissociated themselves from it when adverse variances occurred. To be constructive, assistance had to be in the form of: readily accessible advice - for example, by telephone; the medium-term secondment of staff who became part of the accounting staff of the acquired company at a technician level; or by permanent strengthening of staff at a senior level, when extensive changes were intended or significant problems were encountered.

Low level of assistance. Seventeen acquired companies (9 plus 8, table 15) introduced changes in MAS using their own staff, or a low level of assistance from the acquiring company. Five of these acquirers stated that the acquisition philosophy had been to encourage autonomy and the low level of assistance given was consistent with this. A sixth company was located in the USA and so, for practical reasons, the level of assistance from the acquirer was relatively low. Companies in this category were also those with the most sophisticated MAS prior to acquisition

and experienced the lowest levels of change in the importance of MAS. The average points by which importance changed was less than half those for companies receiving the highest level of assistance (7.3 points compared with 16.7 points - measured according to the bands of importance crossed for all MATs in each acquired company).

High level of assistance. The ten companies receiving considerable or full-time assistance (table 15) fell into three categories. First, those involving extensive rationalisation of control procedures (three companies) including, some degree of centralisation of accounting services, and/or widely differing control philosophies. In these cases well-qualified and experienced management accountants, from the middle-management echelon, were seconded on full- or part-time bases for up to a year to co-ordinate the changes.

The second category comprised three companies which experienced severe trading or management problems, some of which had existed before acquisition. In one case a senior finance executive was seconded "for as long as necessary" from the parent company and given broad terms of reference to install group procedures. In the other cases a senior finance executive - again from the parent - was appointed to a newly created post in the acquired companies. The management effort required to "bring these companies into line and reverse the trading fortunes" was far beyond initial expectations and gave rise to serious misgivings concerning the wisdom of the acquisitions. None of the acquisitions in these first two categories met the criteria for success (section 9.1) and two of them were amongst the five worst failures.

The third category involved relatively small acquired companies with organisational cultures which differed greatly from those of the acquiring groups. In two cases guidance on general management and commercial matters was given, on a part-time basis, by the divisional chief executive responsible for the company. Also a management accountant was seconded, on a full-time basis, to improve the sophistication of MAS. The third company was given a new managing director - a qualified accountant - from the acquiring group.

As this company was relatively small, he was able to combine the roles of chief executive and management accountant whilst introducing the controls he needed to manage. These conformed with group practices and included computerisation of the systems.

Each of these companies experienced a rapid change of management style and philosophy following acquisition. They were small enough for the outlook of the chief executives to become dominant and in each case the chief executive was either ex the parent group or was willing to adopt group styles. The MAS introduced were thus symbolic of the "new era", although they may not have been entirely free of dysfunctional effects, bearing in mind the environments in which the companies operated and the prevailing attitudes of managers at lower levels. Nevertheless, despite very extensive changes, one of the five most successful acquisitions came from this category of acquisitions.

7.5 Change from acquired company point of view

Eight of the acquisitions were studied from both acquiring and acquired companies' points of view and a further four were studied only within the acquired organisation. Naturally, these studies were in a very delicate area and not all acquirers were willing to provide access to 'victim' companies in this way. Those which did probably believed that the acquisition had been handled ably and that there were few skeletons in the cupboard. To some extent, therefore, the observations may be biased towards better management practices.

Most of the information sought from acquiring and acquired companies was identical but additional information was requested from acquired companies in respect of the technical difficulty experienced in introducing changes in MAS and the resistance to such changes.

Table 16*

Techniques	Index of Technical Difficulty	Index of Co-operation / Resistance
Long-Range Planning	61	49
Strategic Planning	76	51
Budgeting in Operating Companies	42	27
Participative Budget-Setting	33	28
Formalised Cap. Exp. Appraisal and Control	42	40
Delegated Authority for Cap. Exp.	28	32
Monthly Accounts and Report	42	30
Variance Reports in Companies	30	24
Cost/Profit Centre Control	33	26
Marginal Costing for Decision Making	50	36
Weekly/Monthly Cash Flow Reports	33	27

* Information extracted from appendix 7

Changes in long-range corporate planning and strategic planning caused the greatest technical difficulties and the least willingness to co-operate, indeed this was bordering upon resistance and in some companies resistance was at the highest possible level (see scores of '5' in appendix 4). These techniques were also subject to a high degree of change (table 9) and to very high levels of conformity (table 13).

- (1) Methodology. Respondents were asked their opinions concerning the degree of technical difficulty encountered in introducing changes in each management accounting technique. Technical difficulty referred to the amount of effort or disruption needed to effect changes as distinguished from any human reactions. Opinions were scored on a scale from '0' representing no difficulty, to '3' representing great difficulty.

Co-operation/resistance was measured on a longer scale, from 0-5 representing enthusiastic co-operation (score '0') through lesser co-operation, resigned acceptance, low, moderate and high resistance (score '5'). Thus the turning point where co-operation became resistance was represented by an index of 50.

The use of marginal costing for management decision-making purposes was next in the order of technical difficulty, although with an index of 50 it was considerably below planning techniques. As with planning techniques, this technique was not as widely used as might have been expected prior to acquisition - particularly by smaller companies - but assumed greatly increased importance after acquisition. It was introduced with a low level of conformity (index 51 - table 13) and with resigned acceptance (index 36 - table 16).

The three techniques with the highest ranking importance (table 8), namely, budgeting in operating companies, monthly accounts and formalised capital expenditure control followed next with the same index of difficulty (42) which suggested that, on average, the amount of difficulty was not too great. There was, however, considerable variation in the difficulty experience by individual companies and this was greatest for budgeting and least for formalised capital expenditure appraisal and control. Attitudes were slightly more favourable towards budgeting and monthly accounts (indices of co-operation of 27 and 30 respectively) than towards capital expenditure appraisal and control (index of 40).

Although changes in technical aspects of budgeting and capital expenditure control were introduced with only moderate difficulty, it is interesting that changes in the participative element of these techniques were considered easier to effect. There was evidence in a number of companies that changes, following acquisition, to a more open and participative style of management were greatly welcomed by managers and staff.

Acquired companies experienced only little technical difficulty in introducing changes in variance reporting and cost/profit centre controls (indices of 30 and 33 respectively), possibly because they were able to design their own systems with fewer time constraints and with only a relatively low requirement to conform to parent company systems.

7.5ii Technical difficulty in introducing changes in each MAT and resistance

Managers in acquired companies might be expected to be less co-operative, or become increasingly resistant, to changes in MATs which they perceived to be either not completely appropriate to their company, or if they involved extensive or difficult technical changes. This idea was tested using the indices of difficulty and of resistance in table 16. The rank order of the indices was found to be statistically very closely associated⁽¹⁾. This strongly suggested that favourable attitudes of co-operation reduced and gave way to increasing resistance as the technical difficulty of introducing changes in a particular MAT increased.

7.5iii Technical difficulty v. resistance to changes in MATs (analysed by acquired companies)

This section tests the same concept as above but analyses difficulty and resistance on the basis of each individual company, rather than on the basis of the list of MATs in table 16. The scores for technical difficulty were added for all management accounting techniques subject to change within each company. In a similar way the scores for resistance were added. The two sets of ranked scores also proved to be statistically significant⁽²⁾. This suggested that the association between technical difficulty and resistance, established in section 7.5ii for each MAT, held true when all techniques were jointly considered within each company. Thus resistance seemed to rise with increases in the technical difficulty of introducing changes.

(1) Spearman rank correlation coefficient of .72 which was significant at the one per cent level.

(2) Coefficient of .92 significant at the one per cent level.

7.5iv The relationships between technical difficulty/resistance and changes in importance/conformity in MAS

This section extends the analysis of technical difficulty and resistance within individual companies by relating each of these to: changes in the importance of the five categories of MATs (table 17a); and to the conformity introduced between acquirer and acquired in these categories of MATs (table 17b).

Table 17a Correlation coefficients of change⁽¹⁾ in importance compared with technical difficulty and resistance

	Technical difficulty	Resistance
Planning techniques	.638 *	.537 *
Budgeting techniques	.748 /	.747 /
Capital expenditure controls	.779 /	.107
Operational controls	.663 *	.446
Remote administrative controls	.433	.205

Table 17a suggests that as the level of importance attached to four of the five categories of MATs increased following acquisition, so did the perceived level of technical difficulty encountered in order to achieve that enhanced importance. The one exception was remote administrative controls.

The association between changes in importance and perceived resistance was less strong and only planning techniques and budgeting techniques were significantly associated. As mentioned in section 7.5i planning techniques were subject to high degrees of change and to considerable resistance. However, although budgeting techniques became very important following acquisition resistance levels were relatively low.

(1) Coefficient of Spearman rank correlation.

/ Coefficient significant at the one per cent level.

* Coefficient significant at the five per cent level.

Table 17b Correlation coefficients⁽¹⁾ of conformity in MATs compared with technical difficulty and resistance

	Technical difficulty	Resistance
Planning techniques	.831 /	.788 /
Budgeting techniques	-.08	-.206
Capitalexpenditure controls	.523 *	.477
Operational controls	.918 /	.856 /
Remote administrative controls	.635 *	.628 *

The coefficients in table 17b suggest that both technical difficulty and resistance may have also been associated with the level of conformity introduced or ultimately intended, between the systems of the acquirer and those of the acquired.

The results of these four sets of coefficients (see tables 17a and 17b reinforce, to a large extent, the comments made in section 7.5i although the analysis was made laterally (across companies) rather than vertically (according to type of MAT).

Concluding remarks

It was not possible to precisely measure the extent to which changes in the importance or conformity of MAS might have modified resistance to changes. However, the analysis strongly implies that: increasing technical difficulty was associated with increasing resistance; and that such increases in technical difficulty and/or resistance were associated with increases in importance and/or conformity. No doubt other factors, including the approach adopted to introducing change, affected the perceived technical difficulty and resistance. However, the associations were sufficiently strong to suggest areas where caution should be exercised by those who design and implement post-acquisition MAS.

(1) Coefficients of Spearman rank correlation.
 / Coefficient significant at the one per cent level.
 * Coefficient significant at the five per cent level.

7.6 Post-acquisition problems

Acquisition can be accompanied by considerable uncertainty and the prospect of changes may be regarded by some employees as threatening. Threat, whether perceived or real, is likely to be met by unwillingness to accept change. Perhaps the most extreme form of threat is redundancy because of the deep implications for personal-security and the self-image of the individual. However, even seemingly modest adjustments to the structure of an organisation, such as occur when an enlarged organisation seeks to restore equilibrium, may give rise to some resistance. Such changes are likely to affect inter-personal relationships and modify the power formerly associated with personal position, expertise, or the control of resources. Management accounting systems may be seen as devices which enable position power to be established. For example, power is characterised by control over invisible assets, such as the flow of information, or by the right to organise, as typified by MATs which facilitate the definition and delegation of authority. When this propensity of MAS to provide sources of power is coupled with the behavioural connotations of such systems, it is reasonable to expect that MAS may become both a cause of, and target for, the expression of resistance and frustration.

7.6i The nature of resistance. In section 7.5 resistance was measured on ordinal scales using subjective assessments. No attempt was made to define the exact nature of that resistance and it was beyond the scope of the study to adopt precise psychological measurements capable of so doing. However, the post-acquisition problems mentioned by respondents, of which resistance was but one facet, provided an interesting insight to the success or failure of the changes introduced to MAS. This section outlines these tactics of resistance. They are attributable to a specific company or companies, thus they are neither generalised comments nor do they represent a comprehensive listing of such tactics that might be employed. Although resistance took many forms these

are grouped into five categories:

Delay. Managers in some acquired companies took an inordinate length of time to implement agreed changes in MAS. This was particularly evident in one company, where the introduction of formalised controls for capital expenditure, and the introduction of more disciplined thinking associated with long-range planning, stunted the entrepreneurial and opportunistic style of management. Although this style of management had led to the growth and success of the company, it was becoming increasingly risky because of the size and public status of the company. Furthermore, technological and competitive innovations were increasing environmental turbulence. Thus there was a growing need to think carefully about the future and the MAS which the parent group desired to introduce seemed to meet these needs. Nevertheless, the change in management style was resisted and despite considerable effort on the part of the finance director of the acquired company, who was convinced of the desirability of the changes, it took several years to get the systems functioning. Even then the level of commitment was rather low and there was evidence that morale had fallen markedly - to the point where resignations were anticipated.

Delay was sometimes achieved by extended discussions and meetings, sometimes conducted under a facade of seeking fuller or better integration. In the case of the entrepreneurial company mentioned above, it was achieved by persuading the acquiring company that formal controls might stifle innovativeness.

Challenging new information requirements. Managers and staff in several of the acquired companies asked "why should we change?". The underlying implication was that existing MAS adequately served the needs of the company and that change was unnecessary. This seemed to be quite a powerful argument when the company had a successful record and was expected and encouraged to continue "autonomously". It was even stronger when existing MAS were of a reasonable quality and seemed well-suited to the prevailing organisational culture. As already discussed (Chapter 5) many of the changes introduced in MAS to facilitate group co-ordination and control did not stop at "external" reporting to the parent company but rippled through to the internal control systems. Many senior executives, not just finance executives, complained that they could not see the use of all the information, implying that they personally were not making use of it. Others protested - at least to the writer - at the introduction of certain controls, whilst others were sceptical concerning even the relevance of certain techniques. Long-range planning was a frequent source of friction and many objected that "five-year planning is a joke when our business is about spotting opportunities".

Some objected to the size and complexity of group reporting formats for budgets, revision of forecasts, capital expenditure approval and control, and monthly accounts and reports. At least one financial director confided that

he had met all the group demands during the two post-acquisition years and endeavoured to be co-operative. However, he had now reached the point where he was going to protest most strongly against many of the group requirements. For him the honeymoon period was over, he felt that his personal worth was known and so, from a position of relative security, he could express his criticisms.

Blocking. This was observed in several forms, such as the negotiation of operating autonomy as part of the acquisition deal, or seeking a promise that no changes would be made for one year. In some cases the promise was included in the offer documents. Such promises were difficult to honour and rather than allaying the fears of staff in the acquired company, concerning the outcome of the acquisition, seemed to create problems and exacerbate uncertainty. They effectively prevented the acquirer making any significant alterations and allowed the opportunity - which sometimes followed soon after acquisition, when people were willing to accept and may even have welcomed change - to pass. Without exception, the acquirers who adopted a "hands-off" policy, for one year, subsequently had cause for regret, or bitter regret.

Another form of blocking was that of preventing the incursion of specialist staff, such as internal auditors, from the acquiring company. In one instance the divisional chief executive, under whose jurisdiction the acquired company was placed, did the blocking - this was partly in response to pressure from senior executives of the acquired company. In other cases it was argued, probably correctly, that staff were too busy and must not be distracted from running the business. One of the companies had the misfortune to be acquired and then, after a period of traumatic organisational upheaval, during which it made losses for the first time in its history, it was divested. The second acquisition, by an American-based group, was accompanied by such excessive demands for management accounting information that the managing director had to intervene and shield his finance staff.

Lack of resources. Sometimes acquirers claimed to have inadequate resources to effect all the changes required, or used this as an excuse to delay implementation. In some cases this was a valid excuse because existing accounting staff, who had been capable of handling simpler systems, were not sufficiently well-qualified to adapt to more sophisticated MAS. Several acquired companies introduced computerisation or increased computer capacity to cope with increased information demands. However, even computerisation could be used as a means of resistance because of the delay thereby created. In one case a plea that resources were inadequate was rebuffed by a veiled threat, in the form of a promise, that staff from the acquirer would be introduced to implement the changes if existing staff could not cope.

Resignation. In a few acquired companies directors and managers exercised their ultimate sanction against change by resigning. Although the desire of a chief executive to retire, or problems of management succession, gave rise to a few of the acquisitions, a new chief executive was appointed within two years of acquisition in 45 per cent of the companies studied. How many of these were resignations resulting from conflict concerning changes, incompetence, or personal friction was not disclosed. Whatever the precise cause, and it may have been a combination of events, this suggested a high degree of incompatibility between acquisition partners. The changes were not confined to the chief executive and at least 28 per cent of acquired companies lost one or more senior executives during the same period. It would seem that these high figures were not an isolated example. A study by Singh (1971), of a relatively small number of companies, revealed a similarly high level of dismissals during the first two post-acquisition years - nearly 46 per cent of directors of the most profitable companies and over 56 per cent of directors of the least profitable companies were dismissed during that period.

In contrast, there were very few changes in accounting staff, excluding finance directors, in the companies studied. The few that did occur were largely caused by closure of offices consequent upon the centralisation of accounting.

Acquisition nearly always increased the information load and it was thus in the self-interest of senior finance executives to endeavour to retain staff.

7.6.ii Post-acquisition problems related to MAS. There was a close relationship between resistance and post-acquisition problems. Problems were sometimes symptoms of resistance and sometimes problems and difficulties stimulated resistance. The catalogue of problems that follows is not exhaustive but arose either in response to a broad question concerning post-acquisition problems or emerged at other stages of the interviews. Efforts were made to avoid leading respondents; for example, they were not presented with a list of problems and asked to select those which occurred. Therefore the problems identified were probably those regarded as most pressing. Many of the problems were mentioned by several respondents and they are broadly arranged in descending order of frequency within each sub-heading. The reader will recall that the study may have been biased towards better management practices because only relatively large acquiring companies, and for the most part, larger acquired companies, were selected. Against this background, both the extent of the problems and their behavioural connotations became rather serious.

Planning procedures - problems

- i. Conflicting planning horizons; acquired companies operating in fast-moving environments, with a realistic planning horizon of two years, had to comply with group practices of five-year plans. Some groups were prepared to concede that plans for later years need not be so detailed or precise. Nevertheless it meant a re-orientation of management thinking towards the longer period and this reduced the credibility of long-range planning. Thus resistant attitudes were fostered rather than attitudes which felt the need for, and desirability of, adopting the technique.
- ii. Closely associated with the above problem was that of changing thinking and attitudes away from concentration upon immediate business problems, to longer-term plans. This difficulty was experienced even when planning

horizons were completely compatible and both parties accepted that there were benefits to be derived from looking further forward. The problem was probably indicative of the way in which the roles of senior executives varied in companies of different size. Large companies and groups tended to employ staff specialists who carried out many functions - such as inputs to long-range planning - which, in smaller companies, fell to senior executives. The dilemma that acquirers seemed to face was, that on one hand they desired to foster autonomy and encourage the acquired company to grow and prosper, whilst on the other, they needed sophisticated feed-back of information to understand the direction being followed and to assist in the allocation of group resources.

- iii. Executives who were accustomed to running the business in a responsive, but largely intuitive manner, found that group accounting control procedures curtailed their style. As already mentioned, some reacted by delaying the introduction of planning techniques and eventually morale declined seriously.
- iv. In some groups long range planning procedures were highly formalised. Executives complained particularly at the burden imposed by schedules, many of which were felt to be irrelevant to their particular business. There was not much evidence that acquirers were prepared to be flexible when it involved variation of established group procedures. Indeed one group chief executive expressed the view that "... accountants like to have detailed schedules to fill in".

Capital expenditure appraisal and control - problems

- i. In a similar way irritation was caused amongst executives in acquired companies by the demands of formalised capital expenditure appraisal and control techniques. As already suggested, acquirers placed considerable emphasis upon such techniques and the need to observe group formalities. Irritation was caused by appraisal methods which involved more sophisticated description and quantification of projects than previously, without any apparent benefits being derived. It was also caused, at the control-of-expenditure stage, by group requirements for detailed reports on relatively

small variations from the approved expenditure level.

- ii. A number of acquired companies faced radically different capital-rationing philosophies. Those formerly constrained by a lack of, or the inability to raise additional finance, sometimes experienced a new-found freedom and received a boost to morale. However, other acquired companies had been, and continued to be, strong cash-generators, but because of group strictures had to join a queue for capital expenditure. In one case the problem was exacerbated because the acquired company was unable to meet the high return-on-capital criteria used to justify expenditure. Such seeming injustices created bitter feelings towards the parent and the paperwork formalities became more burdensome.
- iii. The widely differing attitudes towards the timing of changes were mentioned in section 5.6iv. Sometimes the introduction of capital expenditure controls was delayed in order to respect promises not to institute changes for a certain period of time or to foster autonomy. Several acquirers had cause to regret such delays. In one acquired company the chief executive, without consulting the parent, placed a large contract for new plant. Not only was the plant surplus to group requirements but one of the reasons for acquisition had been to rationalise the two companies, avoid any expenditure on the plant in question, and utilise existing surplus capacity. Another company treated the parent as a bottomless-well of funds and abandoned existing restraints upon capital spending by placing orders for new, and largely unproven equipment. When this was discovered, the group reacted by sending a management accountant to guide the preparation of a capital-appraisal study, albeit in retrospect. The intention was that the contracts would be cancelled, despite penalty clauses, if group appraisal criteria could not be met.

Operational accounting controls - problems

- i. Problems occurred because of different philosophies concerning the frequency, and therefore the implied importance of, certain MAS. For example, the

adoption of group practices for the preparation of monthly accounts, where previously quarterly or half-yearly accounts had sufficed, caused two types of problems. Firstly, technical problems arising from the adoption of group formats, timing, and the additional work-load. Secondly, a reorientation of the rhythm of management away from four important sets of results in each year, supported by day-to-day monitoring of operations, towards monthly cycles. Although day-to-day monitoring could and sometimes did continue, there was evidence that some of the former sharpness and intimacy of control was forfeited.

- ii. In some acquired companies apparently sophisticated computerised systems were found to be producing largely irrelevant and unused data. The solution in one company was radical and involved abandoning all computer systems, introducing interim clerical procedures, and eventually, a different type of computer more suited to the company. These changes naturally involved extensive upheaval and the re-education of information users.
- iii. Conformity with group procedures reduced the quality and sophistication of management control information in a minority of acquired companies. For example, financial expense-type profit and loss accounts replaced standard cost and variance formats, and periodic comprehensive stock-taking replaced perpetual inventory. In other companies reports to satisfy group practices became additional to existing reports causing partial duplication, and both information and work over-load.
- iv. Group reporting deadlines for monthly and annual accounts were frequently tighter and created pressure upon many acquired companies. Meeting such deadlines assumed considerable importance for some finance executives who seemed to regard them as a test of their ability. Some companies found it necessary to computerise accounting systems or increase computing capacity, or to close the books artificially early to meet the deadlines.

- v. The ability and willingness of staff in acquired companies to respond to changes caused difficulties in several cases. Sometimes accounting staff were inadequately skilled to introduce improved MAS. In other cases the senior finance executive failed to meet the expectations of the acquirer for "sharpness of thought and financial leadership". In one company the finance director, who had been a founding member of the company and had exercised stringently tight controls, became de-motivated and completely ineffective. The removal of former 'pillars' of acquired companies did nothing to help morale and made the task of the incoming officer - usually from the parent company - particularly difficult.
- vi. Personal irritation and frustration was expressed by several finance executives because acquisition had altered their role. Formerly they were financial 'supremos' of independent public companies with wide responsibilities for financial affairs - involving outside institutions and shareholders - and for such matters as pension and insurance arrangements. Their new role concentrated upon internal reporting, improving management accounting procedures, and forward planning. This was sometimes a role for which they were ill-equipped.
- vii. At least two acquired companies were asked to prepare revised budgets following acquisition because existing budgets were below the expectation of the parent. These expectations were unduly influenced by over-optimistic estimates incorporated into the acquisition appraisal study and by assumptions that any benefits arising from acquisition would be realised easily. The insistence of the parent that revision was necessary implied that managers in the acquired company were not trying sufficiently hard and that the acquirer had doubts concerning their competence and integrity. The revision was resented and felt to be onerous and unnecessary. Subsequent events proved the original budget to have been more accurate in identifying the forthcoming recession. It was possible, of course, that the resentment caused the original budget to be self-fulfilling.

- viii. A policy of 'no interference' during the first year of acquisition led to so many problems that the acquirer reacted by introducing all group controls at the beginning of the second year. This hopelessly over-burdened staff of the acquired company whose morale had fallen seriously because of extended uncertainty concerning changes.
- ix. The resignation of all senior staff following acquisition left one company in a state of operational and financial collapse and the problems were aggravated by the discovery of extensive fraud. Senior finance staff were seconded from the parent company and intensive management effort was required, over a prolonged period of time, to restore control. This involved the introduction of completely new accounting and management accounting systems. The total managerial effort expended was completely out of proportion to the benefits expected from the acquisition.
- x. The mechanisms of centralised funds control involving the regular transfer of surplus funds from acquired companies was interpreted by some - particularly strong cash generators - as an erosion of autonomy. In one case the acquired company was provided with an interest-free loan to counteract these feelings. Even relatively minor innovations, such as netting-off inter-company balances centrally, were interpreted by some as eroding autonomy.
- xi. Bad feelings were also caused by differences in accounting policies. One acquirer discovered that foreign exchange losses were treated differently in the acquired company. This had not been revealed during pre-acquisition studies and resulted in very significant reductions in profit. Had these facts been known earlier, profit projections would have been much lower providing less justification for the purchase consideration paid. Differences in depreciation policies caused similar problems and created considerable resentment amongst the senior managers of another acquired company. The company traditionally capitalised much of the revenue expenditure because it manufactured and installed specialised equipment

into clients' premises. The installations remained the property of the installer and rental was charged. Adoption of group policies resulted in a large write-off of asset values - with a corresponding increase in acquisition goodwill - and to much lower profit figures for ensuing years. Executives in other acquired companies complained about the burden of adopting extensive group schedules for annual accounts; of having to alter depreciation calculations to conform with group policies; and of having to cope with two financial year-ends in one year.

- xii. Some executives felt that the modified MAS were hindering rather than assisting the business. In particular, increased centralised control, partly caused by a dominant divisional chief executive, reduced autonomy; also tighter controls during deteriorating economic conditions stifled innovation and detracted from, rather than assisted, management efforts to resolve problems.

7.6iii Post-acquisition problems of a wider nature

Because the study attempted to consider MAS within their organisational context many problems of a wider nature were either mentioned by respondents, or became evident during discussions. Whilst many of them were not directly related to MAS they provided at least partial explanations for the MAS that were adopted, the attitudes that affected change, and the more specific problems attributed to MAS. The problems are presented briefly because more detailed consideration is beyond the scope of this study. They are grouped into five headings, three of which coincide with the reasons for acquisition failure commonly found in management literature, namely; the absence of planning; lack of managers of change; and personality problems. The problems were specific to certain of the companies studied and are not generalised.

Absence of planning

- i. The acquired company was allowed to persist for too long with peripheral and inappropriate business activities.
- ii. Synergy, which was expected in respect of selling and distribution, proved to be impracticable.

- iii. A contested bid was pursued, beyond any economic justification, because it became a matter of personal pride; it proved to be a most unsatisfactory acquisition.
- iv. The difficulty of getting two acquisitions, made in fairly quick succession but with inadequate post-acquisition planning, to work harmoniously together.

Lack of managers of change

- i. Managers in the acquiring company were accustomed to handling small acquisitions but lacked experience of medium-sized and larger acquisitions.
- ii. The difficulty of integrating a formerly independent company into the greater formality of a group structure.
- iii. Staff of the acquired company expected widespread changes and were confused and demoralised when the acquirer did nothing during the first year and failed to communicate its intentions.
- iv. Integration and rationalisation took far longer than expected and the marriage of technical matters proved very difficult.
- v. A policy of 'no change in the first year' resulted in acquired and acquirer competing for the same custom to the detriment of the group.
- vi. The chairman of an acquired company was given responsibility for running a subsidiary of the acquiring group operating in the same business. In conditions of low demand he steered orders to his former company.
- vii. The problem of management continuity; for example, the managing director was close to retirement. This was particularly evident in specialised business areas not well known to the acquirer.
- viii. The weak leader of an acquired company was replaced from outside the group but proved to be unsuitable - he had no experience of the particular business and could not correct underlying problems. In one case this resulted in a succession of five managing directors in four years and caused a severe drop in morale.
- ix. Excessive demands for information by parent distracted effort from running the business.

Management style

- i. Staff in the acquired company found it difficult to get to know their counterparts in the acquiring company and their style of management.
- ii. Different commercial attitudes proved difficult to reconcile. For example, one company used heavy price discounting whilst the other resisted discounting but provided more comprehensive after-sales service.
- iii. Managers of a family-run business, retained as a condition of acquisition, resented the introduction of a new general manager: after one year about half of them had resigned.
- iv. Uncertainty amongst staff in the acquired company concerning reporting relationships and reluctance to accept new line/functional relationships.
- v. Getting staff in acquired to adopt a group philosophy which was different. For example, a philosophy permitting increased autonomy to individual managers or emphasising the management of assets to achieve a specified return on capital employed.
- vi. An oppressive management style by the divisional chairman of acquirer which involved daily meddling with operational affairs and threats if budgets were not achieved caused high turnover of managers and a serious fall in morale.
- vii. Problems were caused by the transition from a private company to being a subsidiary of a public group; sometimes these were exacerbated by stricter codes of business ethics.
- viii. A reduction in autonomy and changes in organisational culture.
- ix. The ability to react to environmental changes was blunted by bureaucratic procedures.

Personality problems

- i. Disharmony amongst a family management team meant that only one of the four could be retained after acquisition, with a consequent loss of expertise.
- ii. The quality of management in a large acquired company was largely unknown at acquisition: only one senior manager achieved a successful transition to a senior position in the combined group.

- iii. The persuasive chairman of an acquired company, who had expert power that was vital to success, insisted that the company should retain a high level of autonomy. In consequence, although the company became effectively a product line, integration was frustrated.
- iv. A feeling of loss of identity amongst staff of the acquired company. This was particularly felt within a changed marketing organisation and detracted from the potential of the combined companies.
- v. Motivational difficulties were experienced when former directors of a public company became directors of a subsidiary company.
- vi. Post-bid acrimony occurred following a resisted bid which was won by an unwelcome suitor. One effect was a refusal to co-operate by board members of the acquired.
- vii. The fragmentation of the acquired company into different divisions of acquirer with executives from acquiring company getting superior positions caused friction.
- viii. The persistence of a 'them and us' attitude frustrated integration.
- ix. Changes in conditions of employment, particularly a reduction in the quality of company cars was frequently a highly emotive issue.

Expense of integration

- i. High costs were incurred to raise the pension scheme of the acquired company to that of the group or to pay compensation for the acceptance of an inferior scheme.

.6iv Frequency of problems

As already mentioned the study concentrated upon identifying the most pressing problems rather than on compiling exhaustive lists. One hundred and ten problem-responses were received. These were divided approximately equally between those related to MAS and those related to wider management problems. Table 18 shows the percentage of problems in each category.

Table 18

Problems related to MAS	Operational controls	38
	MAS interface with management style/philosophy	29
	Planning procedures	14
	Capital expenditure appraisal and control	9
	Financial accounting - technical aspects	9
Problems of a wider nature	Lack of managers of change	38
	Management style	25
	Personality	25
	Absence of planning	10
	Expense of integration	2

Although it was not practicable to measure the extent of each problem table 18 provides some indication of where the burden of problems lay. The high incidence of MAS problems concerned with operational controls and their interface with management style and philosophy lends weight to the idea that changes in MAS had far-reaching effects, some of which were dysfunctional. It also seems likely that many of the MAS problems occurred because the **extensive changes** - including, changes in importance, conformity and speed of change - were attempted despite the lack of managers of change, differences in management style, and personality clashes.

A stratification of table 18, according to the style of acquisition, showed the incidence of problems related to MAS and those of a wider nature to be closely similar irrespective of the style.

7.7 Satisfaction with the MAS change process

Although many problems were identified, and there did seem to be a dearth of managers capable of handling change, the possibility remained that finance executives minimised resistance and overcame problems using the approaches described in appendix 12. These approaches included: participation; explanation of changes; reassurance; reward; adopting an acceptable pace of change; gaining respect; exchanging staff; and increasing

autonomy. It was also possible that the problems were in line with those anticipated by those responsible for change. An answer to these two possibilities was sought by asking respondents whether, with the benefit of hindsight, they would alter their approach to gaining control of the acquired company. It was felt that their responses might be coloured by the perceived success of the acquisition. Therefore, the responses (table 19) were grouped according to the success/failure criteria described in section 9.1.

Table 19

Approach to change	'Success' for two years and optimistic outlook	'Success' for one year and optimistic outlook	Failure both years	All
Same	5 100%	8 73%	5 38%	18 62%
Slightly different		1 9%	2 15%	3 10%
Very different		2 18%	6 46%	8 28%
Number of companies	5	11	13	29

The respondents in the five most successful companies were quite happy with the approaches adopted to change. This category comprised very different acquisitions in terms of style of acquisition, the diversity of organisational characteristics, and the level of MAS conformity introduced. Despite these differences, four of the companies possessed two notable and common characteristics: first, that the change agents were executives with considerable experience of post-acquisition management; and second, they experienced very few of the problems listed in table 18. A number of these executives believed that they had developed special acquisition skills related to screening acquisition prospects, planning acquisition, and introducing change, both within the group and as individuals and that present "success" had been purchased at the price of mistakes and failures in the past.⁽¹⁾ Thus their feelings of satisfaction were probably not merely reflections of the success of the acquisition.

1. The development of acquisition skills is considered further in a book entitled "Successful Management of Acquisitions", written by the author (D.B. Publishing, London, 1982).

In contrast, only 38 per cent of respondents in companies which were 'failures' said they would adopt the same approach to change - 15 per cent would modify the approach and 46 per cent alter it considerably. These results implied either; that inappropriate handling of MAS changes was associated with, or contributed to, 'failure'; or that MAS change agents believed that by adopting different approaches MAS could alter the outcome of an acquisition.

Several of the finance executives who were least happy with the change process adopted admitted not having had previous experience of acquisition change.

7.8 Concluding remarks on the change process

It is acknowledged that management accounting systems are capable of modifying human behaviour and of facilitating the development of frameworks which define the role of individuals within an organisational context. These attributes are, or can be, the outcome of established or only slowly changing MAS. However, this chapter has added a further dimension to the impact of MAS upon behaviour, namely the process of change adopted. Systems may have been suited to the environment or technology of an acquired company, but distorted or even rejected, because they were imposed upon unwilling subjects.

There was some evidence of association between "success" and the adoption of consultative approaches to change. However, the pressures for conformity with group practices were such that participation may have been more apparent than real. This was borne out by the evidence of resistance and problems, and by the relatively high level of dissatisfaction concerning the change processes. Resistance was seen to increase, or at least co-operation to reduce, as technical difficulty or the degree of change in importance increased. Thus the further away from existing MAS that acquired companies were required to move so reluctance increased. The participative processes adopted seemed to fall short of the five steps outlined in section 7.2. For example, there was little evidence of "consensual group decisions", "feedback of perceptions, and for revisions"; and the uncertainty which typically accompanied acquisition was not conducive to "participants experiencing acceptance, support, trust and confidence in their relations with each other".

(1)

Resistance may also be understood in the context of power. Executives in acquired companies, accustomed to sustaining their power with information from existing MAS, would seek to protect it. This would provide a defence mechanism against any threat from the acquiring company and the destruction of such a power base, or its transfer to the acquirer, would be resisted. The willingness of acquirers to provide staff assistance may also be interpreted as a threat. Strangers, introduced into an acquired company, would be able to assimilate information and thereby enhance the power of the acquirer, or inculcate the behaviour norms and practices of the parent.

(1) This is considered further in Section 9.4 "How the distribution of power and authority was modified".

EVIDENCE FOR A CONTINGENCY THEORY OF MANAGEMENT ACCOUNTING SYSTEMS

The broad implications of the contingency theory of MAS for post-acquisition control systems were outlined in section 3.4 as:

- i) Because acquisition creates instability in contingent variables ... MAS must be modified to become or remain effective.
- ii) Because two companies are involved, MAS should be reviewed and may need to be modified in both companies.
- iii) Study of the contingent variables affecting each partner could improve the effectiveness of the MAS selected.
- iv) If measures of the effectiveness of MAS could be devised, it might be possible to demonstrate matching between contingent variables and effective MAS.

These implications are now considered in more detail in three different ways. Firstly, evidence derived from the empirical study, some of which has already been described, is compared with selected hypotheses drawn from the literature of contingency theory. Secondly, the responses to a direct question are considered; this sought to provide explicit evidence that contingent variables, capable of influencing the design of control systems, were recognised by those responsible for change. Thirdly, a section of the empirical study is described which provided ordinal measurements of selected environmental and organisational variables. The degree of difference, or diversity, between these variables is compared, for each pair of acquisition partners, with the conformity introduced into post-acquisition MAS. This is followed by a statistical study of the relationship between the importance - before and after acquisition - attached to sub-groups of MATs in acquired companies and the diversity of organisational variables.

8.1 Evidence in support of selected hypotheses

The manner in which the influences, or variables - grouped in this study into environmental and internal (see figure 3) - may actually be interpreted into management accounting systems information is an under-developed aspect of contingency theory. After an extensive review of the research literature of contingency theory, Otley (1980, p.414) referred to the absence of practical

guidelines as to the impact of the relevant contingencies on accounting systems. Given the wide range of influences upon MAS and their inter-relationship with other forms of organisational control, including the behavioural implications of personal and social controls, it is hardly surprising that a generally acceptable contingency framework has proved elusive. For these reasons and also because of the constraints upon the time and goodwill of interviewees and other priorities of the study it was considered inappropriate to pursue the contingency theory too far. Nevertheless, the study endeavoured to avoid some of the criticisms levelled at existing contingency research (Otley 1980) by: widening accounting information systems (AIS) to include planning and control systems; by considering changes in MAS over a period of time; and by providing some indication of the effectiveness of changes.

Some of the findings of this study, shed light upon the contingency theory hypotheses, which have been proposed largely on theoretical rather than empirical grounds. Generally the contingent variables which are thought to influence MAS suffer from a lack of precise definition. For example, the unpredictability faced by an organisation has been variously described as dynamism, non-routineness, and uncertainty. Such unpredictability can arise from outside because of the actions of competitors, rapidly changing technology, or the threat of government intervention. It can also arise internally when, for example, sub-units within a group trade with each other on an arms-length basis in a competitive market, or when extensive re-organisation takes place following acquisition. The effect of this unpredictability upon management accounting systems is a recurrent theme in much of the contingency literature and is one upon which there is some semblance of agreement.

8.1i The environmental dynamism hypothesis

Gordon and Miller (1976, p.60) hypothesised that as environmental dynamism increases - characterised by rapid and unpredictable shifts in consumer tastes,

new technologies, and the introduction of radically new products by competitors

- so effective accounting information systems:

- i) provide more non-financial information on such matters as competitors' actions and consumer tastes;
- ii) increase the frequency of reporting;
- iii) make greater use of forecast information; and
- iv) are more conservative in the allocation of expenses, for example, writing-off rather than capitalising research and development expenditure.

Waterhouse and Tiessen (1978, p.73) hypothesised that as environmental uncertainties increase the organisation will increasingly rely on 'time constrained co-ordination plans' such as budgets, with emphasis upon revision and budget flexibility. In a similar way Amigoni (1978) suggested that, in conditions of increasing environmental turbulence, effective management control systems must be more '... oriented to the future with a high degree of quickness'.

Evidence from acquiring companies. Because most of the acquirers were fairly large groups, involved with a variety of products and markets, respondents were asked to consider the competitive pressures and pace of technological change upon the main product or product group. When this was not feasible, for example if several equally important products were involved or competitive pressures differed widely, a range of responses was obtained. These were then interpreted as representing the highest level of dynamism. This can be justified because the MATs under consideration, long-range planning, strategic planning, and the use of financial modelling or simulation, usually cover all significant group activities once they have been introduced. The importance of each of these techniques was then scored both as at the time the acquisition took place and two years thereafter. Appendix 8 contains an analysis of the responses, grouped according to both the type of competitive environment and the pace of technological change experienced by each acquirer. All the acquirers were of sufficient size to justify the employment of professional staff, either at the centre or within

divisions, capable of implementing any of these three MATs. Thus the non-use of any technique may be seen as the outcome of deliberate choice.

Before considering the implications of appendix 8 a comment on the change in the general economic climate during the two-year period of the study is needed. During this period the British economy, together with many other major economies, was sliding into a prolonged recession. Only 16 per cent of the companies studied considered that there had been no deterioration in trading conditions during this period. Also inflation was at a high level and increasing, despite the ministrations of a Conservative Government pursuing monetary economic theories. Thus profit margins were under great pressure for many companies and extraneous pressures were contributing to increased environmental turbulence. It is perhaps significant that none of the respondents considered the company was experiencing little or no competition.

Turbulence was further increased because of the acquisition. One of the reasons commonly given for acquisition is to increase control of a market as a means of reducing environmental turbulence. The ways in which firms, particularly large firms, can both select and influence their environment were discussed in section 3.3. Sometimes, however, acquisitions can have the opposite effect because remaining competitors feel more threatened and react by intensifying product innovations and marketing effort, or even themselves acquiring remaining independent competitors. Whatever the true acquisition motives of the companies studied, a surprisingly large number - 87 per cent - considered diversification (either technological or product), extension of the product-range, or conglomeration, to be the primary motive. Only 7 per cent were endeavouring to eliminate competition. Thus the majority of acquirers were likely to face increased environmental dynamism because products and technologies, which were new to the acquirer, were introduced. Although acquirers might seek to retain and foster the ability of an acquired company to cope with its immediate environment, acquisition creates new relationships between both parent and acquired companies, and between the acquired and its customers and suppliers.

Turbulence can also increase for an acquirer because the managerial effort required to integrate the new acquisition, including both the inculcation and exchange of modified marketing, technical, and management philosophies, can divert attention from day-to-day running of the business leading to an increase in the incidence of crisis management.

The implications of appendix 8 are:

1. Acquiring companies operating in conditions of relatively slow technological change were inclined to place lower emphasis upon the importance of long-range planning even though competition was moderate, or severe in the case of price competition. A minority of these companies actually reduced the importance attached to LRP over the two years - largely because increasing environmental turbulence was rapidly making such plans obsolete (see section 5.1).
2. Acquiring companies facing relatively slow technological change and severe price competition (probably intensified by recession) were inclined to introduce LRP for the first time (three companies with scores of 0-1 or 0-2). Two companies reduced the importance of LRP but retained the high level of emphasis upon short-term strategic planning.
3. Whatever the competitive pressures, acquiring companies experiencing relatively slow technological change were less inclined to use simulation or financial modelling techniques.
4. Acquiring companies facing a moderate pace of technological change tended to place increased importance upon LRP, strategic planning, and simulation, as competitive pressures, in the form of price competition rather than product competition, intensified.
5. Acquiring companies operating at the extreme of rapid technological change and severe product plus price competition placed great emphasis upon LRP and strategic planning but accorded no greater importance to simulation.

Budgeting is another management accounting tool which facilitates forecasting and performance reporting. With the exception of only one acquiring company

the importance of budgets was clearly at the highest level at the time of acquisition and this did not change during the following two years. However, there was evidence that some companies modified the way in which budgets were used in response to increased turbulence. This was mentioned in section 5.2 with particular reference to the effect upon acquired companies. For example, the traditional annual budget was supplemented by rolling budgets and interim forecasts of year-end performance; also more attention was given to variations from up-dated forecasts rather than from the original budget.

The implications of appendix 8 together with the last paragraph concerning the use of budgets lend some empirical evidence to the Gordon and Miller, and Amigoni hypotheses concerning the increased use of forecast information and increased quickness. They also lend implicit support to the idea that increased non-financial information will be provided in response to increased dynamism, because the extensive use of LRP and budgeting provides an appropriate channel for the collection and assimilation of such information.

The study included only relatively large acquiring groups because it was felt they would reveal the best of management practices and would enable a wider range of sizes of acquired companies to be studied. If the acquirers had been small companies the acquired companies would, generally speaking, have been very small indeed and may not have used many management accounting techniques. Thus the acquiring companies were typically groups with a considerable variety of products, markets, and manufacturing methods which were accustomed to coping with environmental turbulence. Most had adopted divisionalised structures and made extensive use of MAS capable of providing organisational integration, motivation, delegated decision-making, and performance measurement. The scope for introducing additional MAS was thus limited and development of control systems in response to environmental changes, lay in the direction of refining well-established techniques to enable them to cope with increasing dynamism. The 'refined' state of MAS caused problems following some acquisitions because of the wide gulf between the two parties. However, there was little incentive, or

indeed scope, for a large acquirer to modify its MAS in response to the acquisition of a company which was generally considerably smaller, even though environmental dynamism might be increased by the introduction of new technologies. In consequence, acquired companies were, to a large extent, expected to conform with the MAS of the parent. This matter is considered further in the section on contingency theory and MAS conformity.

Evidence from acquired companies. In contrast to the changes in MAS in acquiring companies those in acquired companies were extensive and the evidence in support of points i to iii of the Gordon and Miller hypothesis is now considered.⁽¹⁾ Evidence is drawn from the changes made in MAS during the two years following acquisition when acquired companies also experienced increased turbulence, both from the environment and as a result of being acquired. To what extent these changes were responses to environmental changes or to pressures for conformity with group practices cannot be separated. If interpreted in a favourable manner the changes may be seen as the outcome of careful and balanced judgement by the systems designer as to the information needs for effective management. A more critical interpretation is that the changes were merely responses to pressures to conform. However, this interpretation will be set aside for the moment.

i) "Provision of more non-financial information". Evidence for this is more implicit than explicit. Only a few respondents mentioned non-financial information which had, in addition to the normal reporting package, become important following acquisition. This included daily information on orders received and output and monthly reports from the managing director (see chapter 5).

(1) Point iv of the Gordon and Miller hypothesis (section 8.1i) is not discussed because the introduction of SSAP 13 ("Accounting for Research and Development", 1977) has reduced the discretion that may be exercised by British companies concerning the capitalisation of research and development expenditure. Further, it is more a matter involving company policy rather than the determination of management information systems.

Implicit evidence may be derived from the introduction of, and increases in the importance of, long-range planning, short-term strategic planning, and budgets in operating companies (see discussion in sections 5.1 and 5.2). To be successful these techniques required the collection and interpretation of considerable quantities of non-financial information. Indeed, many will argue that any financial quantification, particularly of long-range plans, should only be very subsidiary to the descriptive content. Executives in one company, who only reluctantly agreed to a request from the acquirer to prepare a five-year plan, were nevertheless enthusiastic about the benefits derived from compiling information on total markets, competitors' products, prices, and market shares. This information had never been collected before and market opportunities were being missed. However, their enthusiasm did not extend to all the planning activities - some of the reactions and problems are described in section 7.6ii.

ii) "Increase in the frequency of reporting". The increases in importance of many of the operational controls in acquired companies (section 5.4) were often accompanied by, or were synonymous with, increased frequency. For example, 30 per cent of acquired companies introduced monthly accounts where accounts produced quarterly, or less frequently, had sufficed previously. A weekly profit report was introduced to two companies in an attempt to regain control of loss-making operations. Also seventeen per cent of acquired companies were required to introduce weekly cash reports to centre (see section 5.5).

Apart from these specific examples of increased frequency of reporting the general tenor of post-acquisition control was one of more information being generated and existing reports being speeded-up. A number of acquired companies introduced computers for the first time or increased computing capacity in the two years following acquisition to cope with this situation. Acquisition was frequently accompanied by a new sense of urgency. This was

partly to comply with the reporting schedules of the acquiring group, but also to service altered demands from management. Information is an important source of power and so new managers introduced into acquired companies usually sought 'refined' control information - to which they were accustomed and which would enhance their power to control. Also incumbent managers sometimes learnt new ways of using information, through contact with their opposite numbers in the acquiring company, and probably perceived the possession of information as a defence mechanism against any threat to their personal position.

iii) "Make greater use of forecast information". The increased emphasis placed upon forecast information in the form of budgets and plans was mentioned in point (i) above. There was evidence that environmental turbulence led to more emphasis upon shorter-term forecasts, sometimes at the expense of long-range plans (see section 5.1), and upon more frequent updating of year-end forecasts and rolling budgets (see section 5.2). At the other end of the turbulence spectrum the case of the specialised foil producer (see section 5.2) may also be interpreted as lending support to the hypothesis. In its unchallenged position as sole UK producer, it enjoyed a very stable environment and did not feel any need to prepare budgets prior to acquisition.

However, there was also counter-evidence because a minority of acquirers which regarded LRP as of lesser importance than the acquired company caused a reduction in its importance (see section 5.1) in the acquired. These cases and that of the foil producer are capable of more critical explanations, namely that personal preferences, rather than environmental considerations dominated the choice of MAS.

8.1ii The structural complexity and environmental heterogeneity hypotheses

Amigoni (1978) proposed a general framework for management control systems showing connections between independent variables and control tools. He identified two broad categories of independent variables; 'company variables', concerned with the degrees of structural complexity; and 'environmental variables', reflecting the degree of turbulence. These two categories of variables may be assumed to be closely similar to those shown in figure 3. He suggested a hierarchy of control tools which may appropriately be introduced as structural complexity or environmental turbulence increase. This ranged from financial accounting as the main, or indeed sole control device in simple structures and stable conditions, and progressed through actual costing, standard costing, and responsibility accounting, as environmental turbulence remained low but structural complexity increased. As turbulence increased and structural complexity advanced so inflation accounting, flexible budgets, operational budgets and capital budgets were introduced. At the extremes of structural complexity combined with high turbulence, long-range, contingency, and strategic plans became relevant.

In general, the findings of the study appear to be consistent with this hypothesis. For example, consideration of appendix 8 revealed progressive reliance, in acquiring companies, upon long-range planning and strategic planning as turbulence increased. Also the importance of all the MATs studied increased following acquisition and new techniques, particularly those higher up the Amigoni hierarchy, were introduced to acquired companies with less well developed MAS. Thus these movements towards sophistication took place within the context of both increasing environmental turbulence and structural complexity.

Amigoni noted the shortage of tools for controlling companies at these extremes. However, he omitted to suggest the possibility that greater sophistication could be achieved by extending the 'traditional' control tools by exploiting their distinctive features, which he had proposed earlier, such

as 'quickness' and 'orientation'. In this respect the study showed two things; firstly, that acquirers tended to rely upon these traditional tools to effect control and not introduce new control techniques (see chapter 5) - any search for radically new techniques may, therefore, prove unsuccessful. Secondly, the study showed that some large acquirers with complex structures and highly developed management accounting systems were modifying these tools to cope with increasing turbulence (see 'evidence from acquiring companies', section 8.1i).

Amigoni also hypothesised connections between organisational variables (environmental and structural) and management control systems, along closely similar lines to those developed for the contingency theory of organisations. Namely, that increasing environmental turbulence and structural complexity would be accommodated by reducing procedural rigidity and moving towards looser or participatory styles of control. In a similar vein Gordon and Miller (1976, p.61) hypothesised that as the level of environmental heterogeneity increases (for example, a large conglomerate dealing in very different markets, with different products and technologies) and power and responsibilities are decentralised to cope with these changes, so the effective accounting system:

- i) emphasises decentralisation with specific parts of the systems more tailored to the sub-segments of the environment; and
- ii) compartmentalises information so that central management can assess the performance of separate divisions.

Unequivocal matching between structural complexity and management control systems requires a deep understanding of the manner in which each MAT is employed, because the emphasis given to different characteristics of each tool, such as variability or controllability, can lead to different outcomes. Although this depth of analysis was beyond the scope of the present study the findings seem to be generally consistent with the hypothesised relationships. For example:

i) As already mentioned most of the acquirers were groups of companies with divisional or decentralised structures. They placed high levels of importance on many, if not all, of the MATs (see chapter 5). Both the range of MATs and the importance ascribed to them at the time of acquisition were considerably higher in acquiring companies than in acquired companies. It appears, therefore, that the differing emphases upon MAS were at least associated with, and probably facilitated, the introduction of more complex organisational structures.

ii) MATs capable of encouraging participation - for example, planning, budgeting, the delegation of authority for capital expenditure, and cost centres (see figure 2) - increased in importance and this was consistent with hypotheses that associate a looser style of control and greater sub-segment independence with responsiveness to environmental turbulence.

iii) The increased emphasis upon other operational controls (see section 5.4) such as variance reports and marginal cost information was consistent with fostering sub-segment responsiveness to environmental turbulence.

iv) The strengthening of monthly reports and budgets in operating companies - often consolidated at divisional level - was consistent with the hypothesis that information becomes compartmentalised so that central management can assess divisional performance when structural complexity or environmental heterogeneity increase.

Concluding comment

This section has outlined selected hypotheses from the contingency theory of MAS and provided empirical support, or at least described apparent consistencies with findings from the companies studied. The findings have been interpreted in a manner favourable to these hypotheses. In later sections a much more critical interpretation of the changes in post-acquisition MAS will be adopted as the study seeks to move away from the rather generalised form, in which existing contingency hypotheses are expressed, towards more precise determination

of MAS/organisational matching. However, it is now appropriate to consider the more explicit evidence that the changes introduced in MAS were or were not consistent with the contingency theory of MAS.

8.2 Explicit evidence for the recognition of contingent variables in the design of post-acquisition MAS

Respondents were asked⁽¹⁾ to describe the major influences considered when deciding upon the appropriate accounting controls to be adopted by the acquired company. The responses were as follows:

	%
Conformity with group management accounting controls	73
Revision of controls for enlarged group - then conformity	7
Preservation of autonomy of operating companies	7
Identification and control of key areas	4
Provision of information on competitors and for decision-making	4
Maintenance of responsiveness to fast-moving environment	4

The answers were dominated by the desire to achieve conformity of reporting throughout a group of companies. Some acquirers were willing to modify this requirement for newly acquired companies by accepting partial compliance for a relatively short time - usually not more than one year. Even with such concessions the pressure to conform often remained if only because speed of compliance was seen as an indication of the ability of financial executives in the acquired company. Several respondents mentioned that acquired companies needed to conform to 'get the benefits of belonging to a group'; presumably this was a reference to the formalities needed to obtain additional funds for working and fixed capital. Another respondent was 'loath to permit variations because the group knows this industry'; he may have had a valid point because the acquirer was a very successful group and the acquisition was in the same industry.

(1) See appendix 10, question 5.3

When the reply was 'conformity' further questions were asked to ascertain whether any other possible influences such as: changes in product or price competition; size of the acquired company; or changes in its style of management; were considered. Usually the response was unhesitatingly negative. However, these reactions did not necessarily mean that contingency theory was completely disregarded because the group systems introduced may themselves have reflected contingent influences, and therefore, almost by default, appropriate systems may have been adopted. Alternatively the response may have reflected the superficial intent of the acquirer as to what it believed should have happened, or an embittered response from an acquired company to all the changes that had to be introduced. However, this response provided no direct support that contingent influences were recognised.

Two acquiring groups recognised the inadequacy of existing group control systems and used the acquisition as an opportunity to select the best from the systems of both parties and develop new controls to which all group companies were then expected to conform. Both cases were somewhat unusual but for different reasons.

In the first case the acquired group was larger than the acquiring group and used more sophisticated reporting and control techniques. Largely because of the disparity in size and lack of familiarity with the business of the acquired company changes, of any description, were approached slowly and cautiously. Initially 'control' was attempted by means of copies of all control information being provided by the acquired company. This led to information overload for executives in the acquirer and key factors, such as headcount, capital expenditure, and cash flow became uncontrolled. Eventually new group controls were evolved to cope with the greatly enlarged group. They reflected a simplification of the controls formerly used in the acquired company and increased sophistication of those formerly used by the acquiring company. It is likely that this result was not simply the result of compromise - only one senior executive of the

acquired company made a successful transition to the enlarged group - but of a genuine attempt to establish the most appropriate controls.

In the second case the acquirer was a long-established group of companies operating in a specialised segment of a traditional industry but facing rapid advances in technology. It was a successful company by both product and financial criteria. However, management accounting systems were relatively unsophisticated comprising mainly the preparation of an annual budget and monthly accounts and the close monitoring of cash flow. Longer-range planning, capital investment appraisal and marginal costing techniques were hardly used and no cost- or profit-centre structure existed. The senior management team was nearing retirement and the company faced a succession problem. The acquired company was approximately one-sixth of the size of the acquirer (measured by turnover) but was relatively unsuccessful. In contrast it had a much younger and vigorous chief executive and more sophisticated MAS; a 'vast amount' of monthly detail was produced and there was considerable emphasis on looking forward with monthly updating of the forecast for the year. Under the terms of the acquisition the chief executive of the acquired company became the new chief executive of the enlarged group. Concurrently with acquisition the finance director of the acquirer retired and was replaced by a much younger man with knowledge of the company gained from auditing. The newly appointed chief executive, with the full support of the new finance director, extended the more sophisticated controls of the acquired company to the acquirer. This accompanied a radical re-orientation of management philosophy towards the future and towards delegation of authority. Long-range plans, strategic plans, capital investment appraisal, variance reports, and profit centre control all assumed the highest level of importance; systems were computerised and a modest attempt was made at simulation modelling. The cultural shock for the acquiring company was considerable and many of the changes, particularly those involving forward-thinking, were resisted.

These changes seem to provide support for the implications of a contingency theory of MAS outlined in section 3.4; and also for the hypotheses which postulate increases in speed of reporting, delegation of authority and concentration on forecast information, as responses to increasing environmental turbulence and structural complexity (see section 8.1ii). However, they also lend support to the ideas that choice by the dominant coalition can be an important influence upon MAS and, in-so-far as resistance was met, to the importance of considering the behavioural implications⁽¹⁾ of any changes in MAS.

Two respondents considered the major influence upon the choice of post-acquisition accounting controls to be the "preservation of the autonomy of operating companies". Both were successful manufacturing companies acquired by large conglomerate groups having no other interests in the same, or closely similar, business area. Indeed, one of the conglomerates was an international giant, and this was its first venture into manufacturing. It encouraged the acquired company to preserve its existing MAS, partly because the managing director persuaded the acquirer that these were well-suited to its fast-moving environment, and partly because the conglomerate lacked experience to make sensible alternative suggestions. Although the acquired company prepared monthly accounts the conglomerate only asked for them to be sent to centre each quarter. A gearing constraint was introduced but the acquired was given complete freedom to negotiate its own bank loans and interest rates. Once capital expenditure had been agreed in the budget it could be committed without further reference to head office. The overall impact was to liberalise the acquired company, because group constraints were far less stringent than those it had formerly experienced as an independent public company. As a result the acquired had access to greatly increased financial resources for development

(1) This idea is developed in section 10.2 "An improved approach to the design of post-acquisition MAS".

purposes; it was regarded as a 'rising star'; and management was highly motivated. The one flaw in the otherwise ideal relationship was compliance with the group long-range planning horizon which was tied to mineral exploration and extraction rather than to the much faster-moving electronics industry.

The second conglomerate adopted a tighter control philosophy involving the regular provision of brief summarised financial information. Although compliance with the content of the reports caused no problems, shorter deadlines meant that increased computer capacity had to be installed. Morale and motivation also appeared to be high in this company, largely because 'the encouragement of operating company autonomy' had been achieved by a policy of non-interference and by keeping group control requirements to a minimum.

These two cases lend support to the contingency theory concept because sub-segments were permitted to retain controls appropriate to the environment, and cultures and management philosophies; thus encouraging adaptability rather than rigidity.

'Identification and control of key areas' appeared to be a response which was consistent with the spirit of contingency theory. However, it was largely a reflection of short-term crisis management caused by the resignation of all the key staff following acquisition and the virtual collapse of the company. Once the key areas were under control and the company trading more normally with new staff the MAS were brought into full conformity with group practices.

The final two responses - 'provision of information on competitors and for decision-making', and 'maintenance of responsiveness to fast-moving environment' - provided direct evidence that the variables postulated by contingency theory could be, and were, recognised by some acquirers as important and even dominant influences, upon the design of post-acquisition MAS.

8.3. Consideration of the evidence for matching between organisational characteristics and MAS

In the preceding section two cases were discussed involving the acquisition of companies by conglomerate groups. The companies operated in business areas new to the acquirer and autonomy was preserved by retaining the existing MAS and introducing minimal group controls. Motivation and morale appeared to have been maintained and both acquisitions proved to be financially successful, one of them also met the stringent criteria for success discussed in section 9.1. In complete contrast another acquisition, which also met the success criteria, was a horizontal-style acquisition. Both parties were long-established companies with partially competing product lines; manufacturing and marketing products subject to only a moderate pace of technological change, but facing severe price competition for some product-lines. The acquired company was required to conform in every detail to group controls and the conformity extended to detailed product costings through the introduction of a uniform costing system. Thus the changes introduced into post-acquisition MAS were widely different and the two acquisitions were themselves quite different. Since each was 'successful' it may be implied that at least the MAS adopted did not cause acquisition 'failure' and might even have contributed to success.

This section pursues the idea, mentioned in section 3.4, that it might be possible to demonstrate matching between contingent variables and effective MAS. As suggested by Waterhouse and Tiessen (1978, p.66), by focussing on the variance in MAS variables between organisations it may be possible to provide answers to a number of questions including, for example, what properties of the organisation, or its environment, increase the reliance placed on formal MAS controls? Although Waterhouse and Tiessen probably envisaged that such comparisons would be made between completely independent companies there may be some advantages in making the comparisons along a further dimension, namely, as between acquisition partners. By so doing different degrees of organisational matching can be compared with the changes introduced in MAS as organisations sought

to restore equilibrium to the control systems. Furthermore, changes introduced in situations of considerable pressure, with much at stake - in terms of pre-acquisition success or failure and the personal reputations of managers - might amplify the primary influences bearing upon the MAS adopted. In contrast evolutionary changes, such as might be observed in more normal on-going situations might be much more difficult to isolate because of the many influences which can bear upon MAS design - the proliferation of these was referred to in section 3.4 as a possible cause of frustration to the development of the contingency theory of MAS.

At the end of section 6.6 the suggestion was tentatively made that the introduction of conformity between MATs of acquired and acquirer depended upon the perceived usefulness of a technique as a means of achieving centralised control and co-ordination. The question arose whether such conformity was introduced simply to achieve formality and centralisation of controls, or whether the changes could be explained in terms of similarities between organisational and or environmental characteristics of the parties? Thus for the contingency theory to receive support it may be hypothesised that: acquisition partners displaying low organisational divergence would introduce higher conformity in MAS or some sub-group of MAS; and conversely, that widely-differing partners would introduce lower conformity into MAS, or some sub-group of MAS.

The reader will recall that the measures of MAS conformity were defined (in section 6) as embracing: the documentation and paper systems used; the timing for - reporting, budgeting and corporate planning etc.; and, the management review procedures adopted. Thus 'conformity' reflected how MATs were executed. It did not reflect whether or not the parent company required a subsidiary company to introduce a particular MAT - for example, cost or profit centre controls - this was measured by the change in importance. To express

the point another way; low conformity permitted greater discretion on the part of the acquired company as to how it actually utilised a MAT. Thus a sub-unit would be able: to suit the MAS to its particular needs; to be selective in its use; avoid information overload; and also enable the parent company to be selective in its requests for feedback. Such attributes have been hypothesised to be consistent with effective accounting information systems in highly differentiated organisational structures (Gordon and Miller 1976, p.62).

The study was designed to enable associations between the diversity of organisational variables (measured as the difference between acquirer and acquired at the time of acquisition) and the conformity introduced in MAS (during the first two post-acquisition years) to be explored statistically. The independent and dependent variables were considered both as complete sets and as sub-sets and details are shown in table 20. In addition each association was explored along a third dimension, namely, according to the style of acquisition. This dimension was considered to be important because each acquisition style reflected a different profile of environmental and internal organisational variables as between acquisition partners. Also by combining companies for each style of acquisition any individual anomalies would become less influential. Thus combinations of any of the variables and acquisition types could be explored as illustrated in figure 4.

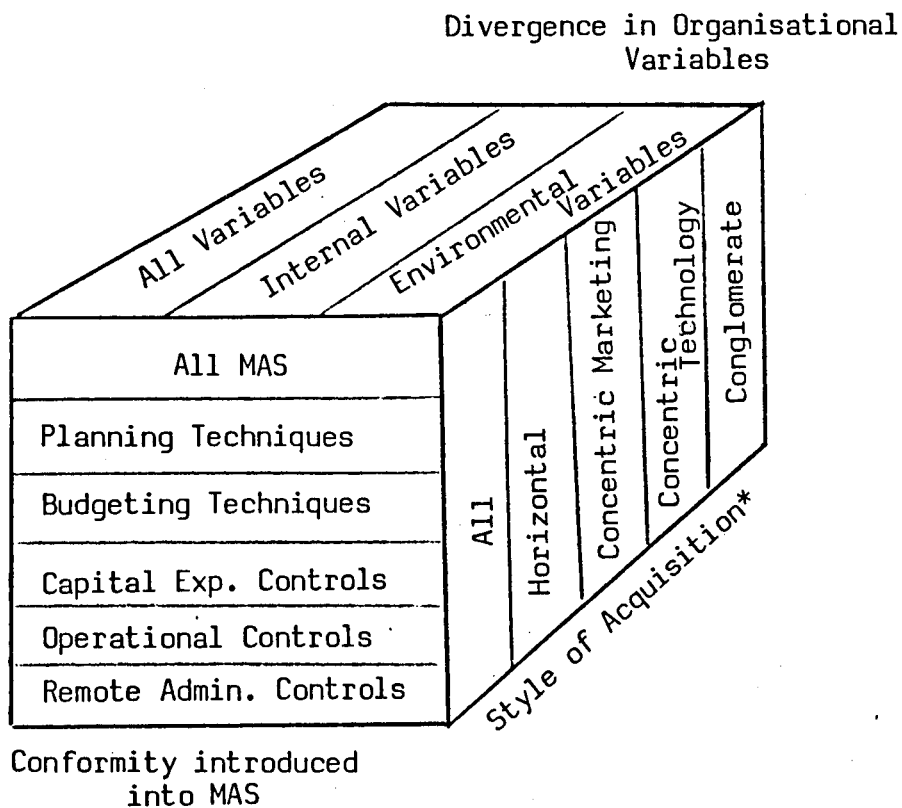
Table 20 List of variables

Independent variables (at the time of acquisition)	
Environmental variables	<p>Competition</p> <p>Technology - pace of change and complexity of production methods</p>
Internal variables	<p>Size of organisation</p> <p>Organisational goals</p> <p>Degree of structural differentiation</p> <p>Management philosophy, e.g. re delegation</p> <p>Prevailing culture</p> <p>Choice by dominant coalition</p>

Dependent variables (Management accounting techniques)	
Planning techniques	<p>Long-range corporate planning</p> <p>Shorter-term strategic planning</p>
Budgeting techniques	<p>Budgeting in operating companies</p> <p>Participative budgeting</p>
Capital expenditure controls	<p>Sophistication and formality of appraisal</p> <p>Delegation and control</p>
Operational controls	<p>Monthly report and accounts</p> <p>Weekly profit report</p> <p>Variance reports</p> <p>Cost and profit centres</p> <p>Marginal costing for pricing and other decisions</p>
Remote administrative controls	<p>Weekly cash flow reports</p> <p>Central funds control</p> <p>Internal audit</p>

Figure 4

Combinations of organisational diversity, MAS conformity, and style of acquisition



The variables, which contingency theory suggests influence MAS, are of such a nature that precise definition and measurement are difficult, if not impossible. For example, competition, even within the same market, is likely to be perceived differently in different companies, if only because corporate objectives or styles of management differ. Even for variables, such as 'size of organisation', which could be measured objectively, the choice of measure was not completely clear. For example, should it be based on sales turnover, profit, numbers of employees, or even capital employed? Because of such difficulties and also because respondent's time was limited no attempt was made to devise objective measures for all the variables. Respondents were asked seven questions (2.2, 2.4 to 2.9, see appendix 10) and their responses, which were ordinally scaled, together with other information collected, provided direct or surrogate measures for eight (see table 20) of the ten variables illustrated in figure 3.

* Vertical acquisitions are included in 'all', but not shown as a separate group because the sample was small.

No information was compiled on 'audit, legal and stakeholder requirements' or on 'cost of information'. The methodology is described in more detail in appendix 9.

Although some of the variables selected were both difficult to define and measure any inadequacies in methodology may perhaps be justified in the context of the aim of the statistical test. This was not to provide definitive matching of MAS with organisational or environmental characteristics. Rather, it was designed to provide an indication, on reasonably consistent bases, of organisational/environmental differences between acquisition partners, as a basis for justifying, or otherwise, the adoption of conformity in MAS, or some sub-group of MAS.

8.3i Interpretation of statistical tests of association

Table 21 shows the Spearman rank correlation coefficients for the combinations illustrated in figure 4. It was expected that negative correlations would provide support for the generalised form of the hypothesis expressed earlier. These would indicate that increasing organisational diversity - as between acquisition partners - would be accompanied by lower MAS conformity. In contrast positive correlations would indicate that, despite considerable organisational diversity, a high level of conformity was introduced into post-acquisition MAS.

However, closer consideration of the sub-groups of dependent and independent variables suggests the need to refine the generalised hypothesis because sub-groups of MATs could be subject to different degrees of conformity. For example, a high degree of conformity could justifiably be introduced to remote administrative controls almost regardless of organisational diversity because such controls were concerned with sound stewardship and carried fewer behavioural implications. However, the only significant correlation for administrative controls ($-.707$ related to environmental variables for concentric technology acquisitions) contradicted this idea and was consistent with the generalised hypothesis.

Table 21 Spearman rank correlation coefficients for: diversity of organisational characteristics with conformity of MAS following acquisition

Organisational variables Management accounting systems	Style of acquisition (2)	All Variables	Environmental Variables	Internal Variables
Long-range & Strategic Planning	All acquisitions	-.148	-.092	-.199
	Horizontal (1)			
	Concentric marketing	-.749*	-.529 \emptyset	-.666*
	Concentric technology	.527	-.083	.649
	Conglomerate	.070	.020	.511
Budgeting: in operating companies & participative	All acquisitions	-.250 \emptyset	-.262 \emptyset	-.146
	Horizontal	-.726 \emptyset	-.726 \emptyset	-.707 \emptyset
	Concentric marketing	.158	.281	.046
	Concentric technology	.000	-.559	.181
	Conglomerate	-.426	-.422	-.227
Capital investment appraisal control & delegation	All acquisitions	-.248 \emptyset	-.308*	-.101
	Horizontal (1)			-.577
	Concentric marketing	-.451 \emptyset	-.425 \emptyset	-.328
	Concentric technology	.000	-.559	.181
	Conglomerate	-.403	-.479	.000
Operational controls: Monthly report Weekly profit Variance reports Cost & Profit centres Marginal costing for decision-making	All acquisitions	.160	.082	.083
	Horizontal	.718 \emptyset	.410	.800*
	Concentric marketing	.459	.352	.239
	Concentric technology	-.100	-.790 \emptyset	.103
	Conglomerate	-.182	-.342	.334
Remote administrative controls: Weekly cash flow reports Central funds control Internal audit	All acquisitions	-.143	-.115	-.130
	Horizontal	-.057	-.287	.447
	Concentric marketing	-.166	-.067	-.164
	Concentric technology	-.447	-.707 \emptyset	-.344
	Conglomerate	-.288	-.220	-.208

(1) Coefficient could not be calculated

(2) Vertical acquisitions not shown as separate group because of small sample; included in 'all'.

(*) Significant at 5% level

(\emptyset) Significant at 10% level.

In contrast operational controls, with the partial exception of monthly reports which seemed to fulfil important dual roles of integration and of providing control information for sub-unit managers, could be expected to be strongly consistent with the generalised hypothesis. Controls at this level had less to do with overall organisational integration and provided more scope for tailoring the controls to suit the specific needs of managers in the subsidiary company. However, with only one exception ($-.790$ for concentric technology acquisitions) the coefficients revealed contradictory evidence. Many of the coefficients, albeit statistically insignificant, were positive, implying a denial of the general hypothesis. This was further reinforced in the case of horizontal acquisitions with a significant, but positively correlated coefficient of $.718$; so more organisational diversity appeared to be accompanied by greater conformity of MAS.

Because each of the remaining three sub-groups of MAS - planning, budgeting, and capital control - could be used to facilitate organisational integration it seemed possible that compliance with the general hypothesis might be slightly reduced.- For example, it might appear logical to require all subsidiaries to comply with group procedures for corporate planning. However, this would not be desirable for all styles of acquisition because it would imply, amongst other things, conformity of documentation and the use of common time horizons. Whilst such conformity might be appropriate for companies involved in a horizontal-style acquisition it might be very inappropriate in a conglomerate-style acquisition (Some of the problems caused by the introduction of long-range planning and common time horizons were discussed in section 7.6ii .)

Although weaker evidence of association might be expected for these three sub-groups they provided more significant results in support of the general hypothesis than other sub-groups. There was evidence of significant negative association, in five of the thirteen coefficients, between environmental divergence and conformity in MAS. However, there was markedly less evidence for any significant relationships between divergence of internal

variables and conformity.

Many of the results provided no statistically significant evidence of any association, direct or inverse, between diversity and conformity. Even the results which supported the general hypothesis may be interpreted as providing only passive evidence. Acquirers may have introduced a high level of conformity in MAS without regard for organisational differences, but because the organisations were similar, the outcome was in accordance with the hypothesis. This possibility is further supported because the significant results occurred amongst horizontal and concentric acquisitions where organisational and environmental similarities were likely to be greater.

3ii. The implications of a weaker test

The statistical tests were quite severe and although consistent with the general tenor of findings that acquirers expected a high degree of conformity regardless of organisational variations, it seemed possible that more subtle relationships were being disguised. Accordingly, the median scores for organisational diversity and MAS conformity were considered for each type of acquisition. The use of the median eliminated extreme scores such as those of acquirers which were insistent upon achieving complete conformity regardless of large organisational differences. The relationships of the median scores are shown in figure 5.

Figure 5 Association of divergence and conformity based on median scores of acquisition types

		Divergence of all organisational variables	
		Low	High
Conformity of all MAS	Relatively low	Concentric	Conglomerate
	Relatively high	Horizontal	Vertical

Although the overall levels of conformity were high, the evidence suggested that different styles of acquisition were accompanied by differing degrees of conformity in MAS. For example, conglomerate acquisitions, which typically occurred between partners with considerable organisational differences, tended to be controlled with lower conformity. In contrast, horizontal acquisitions, where partners had greater organisational similarity and sometimes intended to merge operations, tended to introduce a relatively higher level of conformity.

Concentric marketing and technology acquisitions are combined in figure 4. Like horizontal acquisitions, which they closely resemble, they displayed relatively low divergence, but were quite different in respect of conformity. Lower conformity probably occurred because the opportunities for merging operations were usually fewer than for horizontal acquisitions. Although not shown in figure 5, it was interesting that concentric-technology acquisitions showed greater divergence and higher conformity than concentric-marketing acquisitions. One possible explanation was that co-ordination of manufacturing processes was more difficult to achieve than co-ordination of marketing and it was pursued by increasing conformity and rigidity in MAS.

Figure 5 shows the relative positions for the conformity of all MAS. The pattern remained identical when conformity of operational controls was compared with total organisational divergence.

iii Organisational variation compared with the importance of MATs in acquired companies

The previous section compared the differences or diversity between organisational characteristics, for each pair of partners, with the level of conformity introduced into MAS. Because differences were being measured any shortcomings in the measurement of the chosen variables were mitigated because they were likely to apply to both partners. However, having tackled the difficulty of defining and measuring variables the possibility arose of applying, albeit tentatively, a statistical test related to the view that the employment of accounting tools might depend upon changes in contingent variables (this was discussed in section 8.1ii).

This test involved identifying any matching between organisational variables and the use of and importance attributed to, MATs in acquired companies, at the time of acquisition - that is prior to any changes arising following acquisition.

Table 22 Correlation coefficients for variation of organisational characteristics with importance of management accounting techniques in acquired companies at the time of acquisition

	All organisational variables	Environmental variables	Internal variables
All MATs combined	.150	.410*	-.199
Planning techniques	.325*	.327*	.100
Budgeting techniques	.077	.330*	-.256 \emptyset
Capital Exp. controls	.175	.351*	-.138
Operational controls	.057	.321*	-.173
Remote admin. controls	.056	-.017	.097

* Significant at 5% level
 \emptyset Significant at 10% level

The results (shown in table 22) suggest that, with the exception of planning techniques, there was little relationship between overall organisational variability and the importance attaching to groupings of MATs. However, there was very strong evidence - significant at better than the 5 per cent level - of association between environmental variability and the use of, and importance attached to, all groups of MATs except remote administrative controls. That is, companies facing greater competitive pressures, a higher pace of technological change, or greater complexity of production methods, made greater use of, and attached more importance to a wide range of MATs prior to acquisition. These results seem to be consistent with the contingency view that the sophistication of, and reliance upon, MAS is likely to increase as environmental turbulence increases.

However, not all the companies were successful or as successful as they might have been, at the time of acquisition:

27 per cent were rated as having 'low success';

41 per cent as 'moderately successful';

21 per cent as 'better than moderate';

10 per cent as 'highly successful'.

Perhaps MAS are essentially hygienic in nature. That is, when well-suited to the organisation they cease to hinder and perhaps even facilitate, other factors which generate success; but they are incapable, in isolation, of creating success.

The test in this section is an aside to the main use of contingency theory in this thesis which is to justify, or otherwise, the adoption of conformity in MAS. However, it seems reasonable to postulate that following the extensive changes in importance and conformity in MATs during the two post-acquisition years, that the strong association between environmental variables (shown in table 22), existing prior to acquisition, would not be repeated. Thus the changes introduced in MAS following acquisition probably

destroyed the matching which had previously existed.

4 Concluding remarks on the evidence for the contingency theory of MAS

The study provided some evidence in support of theoretical hypotheses that companies respond to greater turbulence, caused by environmental conditions, including the pace of technological change, by placing greater emphasis upon predictive MATs. Also that some companies, in this case acquirers, modified the application of such techniques with respect to frequency, content, and style, in response to intensifying pressures. Similar responses probably occurred in acquired companies also but were overshadowed by the extensive changes introduced to achieve conformity with parent company practices. Evidence for the increased provision of non-financial information was implicit because of the extended use of predictive techniques such as planning and budgeting.

There was strong evidence of increasing sophistication in the MATs used in acquired companies which may partly be explained in terms of contingency theory because of turbulence, associated with environmental factors and acquisition itself, and partly by requirements to conform with group practices.

Direct evidence that contingency influences were recognised in the determination of post-acquisition controls was strong for a minority of acquisitions, but in the majority of cases such influences seem to have been largely disregarded in the pursuit of conformity.

The statistical correlation study provided only limited support for the hypothesis that the greater the divergence between organisational characteristics of acquisition partners the lower would be the conformity introduced into MAS and this support was mainly related to predictive and integrative techniques. However, a weaker test revealed evidence, by acquisition type, in support of the hypothesis. The tests embraced a wide range of both internal and environmental variables and it seems likely that certain variables become dominant, but change from time to time and thus do not remain dominant. For example, in a stable environment

choice by a dominant coalition - or a newly appointed managing director - may dominate. However, increasing environmental turbulence may cause the dominance to alter again. Some acquirers probably consider the priorities of integration to be such that all other MAS determinants become subservient and the outcome may be dysfunctional systems.

PART III

This part considers the success of the acquisitions studied and reflects upon the implications of the study for the design of more effective post-acquisition management accounting systems.

CHAPTER 9

REFLECTIONS

In this chapter objective and subjective measurements are combined to classify the companies studied according to their relative 'success' or 'failure' during the first two post-acquisition years. Attention is then directed to several broader issues which provide alternative or modified explanations for the changes which were introduced in management accounting systems.

Post-acquisition success

There are several problems affecting the measurement of the success of mergers and takeovers. Studies dealing with the economic aspects of acquisition have typically endeavoured to measure the effects upon profit or share market prices. Some studies have recognised that extraneous factors, such as economic and environmental conditions or different accounting policies can affect profit and have attempted to adjust for such changes. However, the measurement of success in this manner is somewhat unreliable because published accounts are rarely sufficiently disaggregated to reveal the profit performance of the acquired company. Also re-organisation of assets frequently takes place following acquisition and the former economic unit becomes wholly or partly absorbed into the parent company. Comparisons may be clouded further by management decisions concerning the timing and extent of any rationalisation expenses. However, it is not difficult to appreciate that researchers working from publicly available information are forced to use profit, perhaps with some adjustments, as surrogates for acquisition success.

When inside information is available, the measurement of success can perhaps be more refined. A leading firm of management consultants has suggested to the writer that, where quantified objectives exist for an acquisition, achievement can be measured against these. For example: the effects of selling a range of products through one rather than two selling forces; the rationalisation of

production facilities; increasing overseas sales volume by joint activity; or the reduction of administrative and managerial overhead; could all be quantified. Unfortunately, as this study has shown, the majority of acquirers, even acquirers using sophisticated planning techniques, do not always prepare detailed objectives for acquisition.

The measurement of the success of post-acquisition MAS presents even greater problems than the apparently straightforward measurement of profit, because of their inter-relationship with other modes of organisational control. Progress towards assessing the success of MAS probably lies in considering the contribution they make towards organisational control and integration, for example, by facilitating the making and communicating of decisions, and by providing motivation for individuals and performance measurement. It has been argued that it is the ability of MAS to facilitate these activities which gives them their importance (Chapter 2). Such measurement requires very detailed studies at different management levels. However, it was not considered reasonable to ask companies, who had readily agreed to participate in the wider aspects of this study, to extend their co-operation. Furthermore, a pilot study, conducted amongst twenty managers in two medium-sized acquired companies had confirmed the difficulty of obtaining objective responses to MAS following acquisition, because general changes arising from acquisition affected people differently. For example, attitudes and motivation were altered by changes in company car schemes or promotion prospects, as well as by organisational controls.

Consequently, this study has concentrated upon the appropriateness of MAS by considering: the technical difficulty experienced in introducing changes to MAS; the resistance and problems encountered; the satisfaction of the changer with the change process; and the design of MAS compared with a theoretical expectation based upon a contingency theory of MAS. Despite the difficulties of measuring success in terms of profit, it has been useful to make occasional reference to the 'success' of an acquisition when considering

how MAS were modified. Success or failure was determined in the following manner:

Respondents were asked to indicate whether the objectives set - usually in terms of a budget rather than the acquisition case study - were achieved in the first and second years following acquisition. They were also asked to express an opinion, in terms of optimism or pessimism, on the longer-term prospects for the acquired company.

Table 23 Post-Acquisition Success

	No. of Companies	% of Sample
<u>'Successful'</u> Achieved profit expectation in first and second post-acquisition years plus optimistic outlook	* 5 (1)	* 17% (3%)
<u>'Partially successful'</u> Achieved profit expectation in first post-acquisition year only, plus optimistic outlook	10 (1)	33% (3%)
<u>'Partial failure'</u> Failed to achieve profit expectations in first post-acquisition year but with an optimistic outlook	6 (2)	20% (7%)
<u>'Failure'</u> Failed to achieve profit expectations in first and second post-acquisition years, plus low optimistic or pessimistic outlook	5 (4)	17% (13%)
Not disclosed	4	13%

* figures in parenthesis refer to companies that were 'unsuccessful' prior to acquisition

The five companies deemed to be 'successful' met the difficult criteria of achieving expectations in each of the post-acquisition years and were also accorded an optimistic outlook by the parent company. The sixteen companies in the next two categories achieved profit expectations in only one of the two post-acquisition years but the acquirers were optimistic about the future.

Nevertheless erroneous judgements were made in arriving at performance expectations for at least one of the two years. The distinction between partial success and partial failure was a fine one. Success in the first post-acquisition year might have resulted from continuing impetus - perhaps supported by a strong order-book - but at least the impact of acquisition, and of any changes introduced in areas such as MAS, did not have a detrimental effect or unduly distract attention away from running the business. However, failure to achieve expectations in the first post-acquisition year could be interpreted more critically in terms of erroneous judgements concerning forecasts and admitted the possibility that post-acquisition changes were excessively disruptive.

The five companies in the 'failure' category failed to achieve profit expectations in the first and second post-acquisition years and acquirers expressed views of low optimism or pessimism concerning the future. In some cases interviewees considered the acquisitions to have been ill-advised or that turning the company around from loss-making to profitability had proved more difficult than expected. Although acquirers had the opportunity to revise profit expectations for each year and to set modest targets - even if these represented very low returns compared with generally accepted norms - the acquired companies still failed to meet them. Thus the failure was quite serious and it seemed to be associated with the absence of success prior to acquisition. Other studies, for example Meeks (1977), have provided evidence that the pre-acquisition success of an acquired company has a significant effect upon success following acquisition.

Four of the five 'failure' companies were unsuccessful prior to acquisition (see table 23). The benefits expected to arise from acquisition, such as synergy, had not been released in two years and there appeared to be no immediate prospects of significant improvement.

Evidence that certain characteristics of the MAS adopted were related to success or failure will be considered in section 10.2iii.

9.2 Towards Bureaucratisation?

The changes introduced in MAS in the companies studied suggest that acquiring companies were inclined to extend bureaucratic⁽¹⁾ or mechanistic forms to acquired companies. For example, devices capable of effecting control and integration (monthly accounts, budgets, and formalised capital expenditure control) became the most important (section 5.6i); the modification of MAS reflected changes in management style, particularly an increase in formality and in the delegation of authority (section 5.6ii); the range of MATs used was extended and became more important (section 5.6ii); a high level of conformity with acquiring group practices was introduced into all MATs concerned with the provision of information for overall control or co-ordination (Chapter 6); and, conformity was pursued, in many cases, despite considerable divergence in the organisational and environmental characteristics of the partners (section 8.3i). This inclination towards more rigid organisational forms occurred despite the professed desire of many acquirers, to "encourage autonomy" and despite evidence (sections 3.2 and 8.1i) that more adaptive structures might have been more suitable for some, if not many, of the acquired companies. The findings of T. Burns (1963), although made two decades ago, relating to his studies in the British electronics industry, seem particularly apposite to this situation:

(1) Bureaucracy is referred to in the Weberian sense involving a single 'best' organisational form involving the division of tasks according to function, with well-defined hierarchical authority and rules and procedures for dealing with tasks together with the maintenance of an impersonal (i.e. unbiased) approach to interpersonal relationships (Weber 1947). A later generation of students of organization introduced the term 'mechanistic' systems, as opposed to 'organismic' systems, as a refinement of Weber's "rational bureaucracy". (Burns 1963). Organismic systems, or structures, were to be adaptable to enable organisations to cope with unstable and quickly changing conditions - particularly environmental and technological conditions. For the individual, mechanistic systems define what he has to attend to and how, and what is not his responsibility. In organismic systems such boundaries disappear and the individual is expected, through his efforts to exercise special competence, to be committed to the success of the concern's undertaking as a whole.

The ideology of formal bureaucracy seemed so deeply ingrained in industrial management that the common reaction to unfamiliar and novel conditions was to redefine, in more precise and rigorous terms, the roles and working relationships obtaining within management, along orthodox lines of organization charts and organization manuals. The formal structure was reinforced, not adapted. In these concerns the effort to make the orthodox bureaucratic system work produced what can best be described as pathological forms of the mechanistic system.

Nevertheless, within such confines managers in some acquired companies found their responsibilities and freedom were enhanced. This occurred because the revised structure was less restrictive than the former bureaucratic or even autocratic structures. Examples of such liberalisation were discussed earlier and included; increased authority for capital expenditure (section 5.3), and for borrowing limits (section 5.5); and the encouragement of participation (section 5.6ii).

These feelings of enhanced freedom seemed to be consistent with the findings of Burns and Waterhouse (1975). They found budget-related behaviour to be contingent upon various aspects of organisation structure such as centralisation, autonomy, and the degree to which activities were structured. For example, managers in large organisational units, which were highly structured - characterised by widespread delegation of authority - tended to perceive themselves as having more influence because they participated more in budget-planning and appeared to be satisfied with budget-related activities such as the discussion of variances. However, highly structured organisations - associated with routine, standardised activities - also decreased the extent to which budgetary control permitted flexibility and innovation. So, although budgetary control might enhance the effectiveness of such structures, such structures would themselves, only be effective in relatively stable environments.

Many of the groups in the present study were highly structured and the acquisition of a further company typically added to size and to structuring, as evidenced by the increased emphasis placed upon MAS capable of contributing to the delegation of authority and participation. However, few of the acquirers

claimed to operate in a stable environment and the tendency was for turbulence to increase, because of the deterioration in economic conditions in Britain and the world, and as a consequence of acquisition. In such conditions, responsiveness rather than rigidity in MAS would seem to have been needed.

The enhanced freedom that was introduced may have been relatively minor in itself and may be interpreted as consistent with the definition of responsibility characteristic of mechanistic structures, rather than as a move towards organismic structures. Nevertheless, the benefits associated with delegation and participation may not be negligible. Tannenbaum (1965) found some evidence that increased control exercised by all levels of the organisation hierarchy was associated with increased organizational effectiveness; also that a relatively high level of control may reflect increased participation and mutual influence throughout the organisation and a greater degree of integration of all members. This was likely to result in the enhancement of ego-involvement, identification, motivation and job satisfaction. Workers having some sense of control were more positively disposed to supervisors and managers and their managers were more positively disposed towards them.

The extension of delegative procedures applied mainly to operational controls and affected lower level management. At higher levels of management the predominant trend seemed to be towards reduced freedom and increased control. In such conditions the natural inquiring capacity of individuals can be stifled because they believe they can neither understand nor influence the systems within which they are embedded (Argyris 1965, Churchman 1968). Apart from any group controls introduced, the sheer size of some acquirers may have intimidated senior executives in acquired companies.

In some acquired companies defined limits for delegated authority were not introduced during the first post-acquisition year, because the acquirer had negotiated autonomy. Nevertheless, the group sanctions were still operative. This was evident in the case of the assertive chief executive of an acquired company who, unknown to the parent, entered into

large capital commitments (section 7.6ii) - he was sanctioned by early retirement.

Perhaps the reinforcement of formal structure was to be expected because the acquiring companies in the present study were large, mainly divisionalised companies, primarily involved with manufacture. Also a substantial number of the acquired companies were relatively large companies or groups, large enough to have already adopted divisionalised structures. Increasing bureaucratisation has been associated with both large size and with growth. The influence of increasing size upon structure, characterised by the introduction of specialised roles and the need for increased co-ordination and control, by means of standard procedures and documentation and less 'personalised style', was discussed earlier (section 3.3iv). For acquiring groups the growth was not gradual, such as may be achieved by organic growth, but instantaneous, and sometimes very considerable. It was, therefore, a natural reaction to extend and intensify control procedures, even to the point of over-reaction in some cases, in an attempt to safeguard the viability of the newly-acquired assets and the credibility of the acquirer - attempts which often proved less than successful (section 9.1). Individuals in some of the larger acquired companies found that one bureaucratic structure was substituted for another with revised rules for the organisational game.

The intensification of control also seems to be consistent with the observations of Argyris (1965). He considered the predominant form of modern organizations to be primarily characterised by top-down hierarchically structured control mechanisms, emphasising management domination and worker subordination. He saw such structures as being in direct conflict with the needs of individuals for growth in competence and self-esteem. This contradiction was also apparent in many acquirers who claimed that they wanted to encourage autonomy, but nevertheless imposed group controls. Acquirers did not define 'autonomy' but the implication was that managers within

acquired companies were granted some freedom to determine both the future of the company and the operational patterns to be adopted for its achievement. Although the extent of such freedom varied considerably in different organisations, in the majority of cases it was only permitted within clearly defined limits.

9.3 The importance of MAS relative to other means of exercising management control

Attempts to increase the total amount of control may be expected to reach a peak when major change or crisis, such as acquisition, is encountered. However, not all forms of control may be increased in parallel. The pattern of control is likely to alter with emphasis moving away from social and personal controls towards administrative controls. But because these various forms of control are inter-active the changes may produce unanticipated outcomes (Hopwood 1974, p.23). Examples of such outcomes were considered in Chapter 7 and included: resistance, reduction in morale, complaints concerning the burden of 'irrelevant' detail, and even resignation. In some instances these were responses to changes involving the restriction of freer or opportunistic styles of management - styles which relied more extensively upon personal controls - accompanied by considerable increases in administrative controls.

The formality associated with administrative controls was not necessarily entirely unwelcome. There are psychological reasons why some individuals may prefer such systems. In particular, individuals who feel threatened by acquisition or post-acquisition uncertainty may cease to be so innovative and prefer to follow rules and procedures in a strict fashion as a means of avoiding criticism and of creating a sense of security (Levinson 1970).

Although it was not possible, within the confines of the study, to measure the level of social- and self-controls operative before and after acquisition, it is almost certain that overall both categories were

sacrificed as formal controls were intensified. Also that formal controls were intensified both in their own right and as means of off-setting any reduction in other forms of control.

The management accounting controls, which form part of the administrative controls, were conventional although the range of techniques used and their importance increased (see chapter 5). Furthermore, because these changes involved attempts to redistribute influence between individuals at different organisational levels it is likely that they also increased the total amount of control at work. For example, properly conducted programmes to increase delegated decision-making possess the potential for increasing the absolute amount of influence exercised by lower participants whilst maintaining, or even increasing, the influence of more senior managers (Tannenbaum, 1965).

Throughout the study references have been made to the emphasis placed upon MASs in achieving post-acquisition control. However, they were not used in isolation. Of particular importance in effecting post-acquisition control was inter-personal contact. For example, a high proportion of acquirers placed a non-executive director on to the board of acquired companies. Usually the appointments were of limited duration. In addition to safeguarding the interests of the acquiring group his role was to advise upon and monitor the progress of change, to act as a catalyst in the development of future plans, and, more insidiously, to inculcate the norms and beliefs of the parent company. Although the position was usually non-executive, it nevertheless carried considerable power to influence and even to sanction behaviour which might be incompatible with group objectives. As already mentioned (section 7.6i) 45 per cent of acquired companies received a new chief executive, usually from the parent company. Their powers of control were even more extensive because of ongoing contact with every level of staff. Control was also effected by inter-personal contact between

staff in the acquired company and agents of change and other specialists from the parent company (section 7.4).

Each of these 'advisers' would have different attitudes towards, and preferences for, routine paper-work information. For example, there is research evidence to suggest that users of information invariably prefer more data, even past the point of maximum level of information processing and conceptual abstraction (Streufert et al, 1965). Dew and Gee (1973) also found that a significant proportion of control information is not used and that middle managers perceive cost information as existing to measure their personal efficiency or the efficiency of the operations they supervise, rather than to help them. Instances were observed during the study of 'advisers' placing great emphasis upon management accounting information from acquired companies. This emphasis may well have exceeded that normally accorded to such information by these individuals in more routine and ongoing circumstances.

There are three possible explanations for their changed attitude. Firstly, the information was being used to educate the adviser. The adviser was at a great disadvantage because it took time to understand a business and he could rarely get close enough, or for long enough, to become steeped in the organisation. Any intolerance, on his part, to ambiguity could be accompanied by a preference for a greater amount of information (Dermer, 1973). Secondly, the adviser was communicating the official attitude of the parent company concerning the apparent importance of control procedures. In so doing he may well have set aside any personal misgivings about the value of such information - as a representative of the parent company he would be expected to be above

such treasonous thoughts. Thirdly, the adviser believed that the acquired company was incapable of exercising control and needed to be policed - a view already mentioned (see "Introduction"). Thus even inter-personal contact, in the context of post-acquisition change, may be seen as a method of reinforcing, rather than replacing or reducing the formal paper-work controls.

In addition to accounting-type controls there were other aspects of administrative controls that were modified following acquisition. These were not studied but it is widespread practice within group companies to adopt uniformity in the control of pensions, insurance, personnel policies, trade union relationships, salary structures, company-car schemes and so on. Whilst such matters receive considerable attention, and not a little ingenuity, following acquisition, the control aspects are on a completely different level to management accounting controls. Once agreement has been reached on terms the control processes are largely mechanical and do not possess the behavioural implications attaching to MAS. Nevertheless, any bad-feelings caused by imposition or excessive rigidity may modify attitudes towards changes in MAS. For example, executives in acquiring companies frequently expressed concern at the cost of extending group pension scheme benefits to acquired companies; whilst executives in acquired companies expressed displeasure with group car-schemes.

9.4 How the distribution of power and authority was modified

Brief reference was made in Chapter 1 to the possibility that the handling of post-acquisition MAS might be associated with, or partially explained in terms of, power. Within the context of an organisation power may be regarded as the capacity to determine outcomes (Ranson et al 1980). It is derived from formal authority and from influences associated with comparative advantage for providing resources to support the tasks of others. Such resources include materials and services and information. Control over information has been widely recognised as providing perceived power over other individuals (Mechanic 1962, Crozier 1964, Mumford and Pettigrew 1975). Information systems also provide a means for redistributing influence within an organisation and may thus be used to perpetuate or modify decision-making processes and social structures (Bariff and Galbraith, 1978).

In the context of post-acquisition change power is both desirable and necessary. However, the direction in which power is exerted, particularly by individuals in the acquired company, may be inconsistent with the best interests of the enterprise. "Power involves the ability of an actor to produce outcomes consonant with his perceived interests" (Pettigrew 1972, p.188). But, following acquisition "perceived interests" may be radically altered, as implied by the different attitudes which individuals may adopt (section 7.1).

The decision to acquire may itself be politically motivated and based more upon the power aspirations of ambitious executives, than upon completely rational economic factors. Acquisition provides control over resources on a grand scale. However, the control may be more apparent than real because mishandling of the acquired assets can cause them to be dissipated. For example, acquirers frequently seek good quality management, or other strengths related to individuals, and are prepared to pay premiums for such attributes as though they are, and will remain, captive. However, the effectiveness of

individuals depends upon their continuing motivation. As discussed in Chapter 1 appropriate MAS can assist motivation; but the converse is also true and the extensive changes introduced to post-acquisition MAS may have reduced existing motivation. Some of the problems (section 7.6iii) revealed frustration and disappointment - attitudes which were inconsistent with motivation and feelings of achievement.

Modification of power at higher levels. Following many of the acquisitions there was a considerable shift of power away from senior executives of the acquired company to those in the acquirer. Some acquired companies endeavoured to redress this transfer of power by negotiating operating autonomy or a promise that no changes would be introduced for twelve months. Nevertheless, de facto power moved into the hands of the acquirer because legitimate control was achieved over the disposition of resources and the formulation of policy. The loss of power and influence was acutely felt by many executives who had been directors of formerly independent companies, particularly public companies. Although their responsibilities may have remained closely similar their status, relative to that of main-board directors of a much larger parent, was perceived as having diminished. Many found themselves reporting to a divisional chief executive, who may not himself have been a main-board director. Furthermore, personnel from acquiring companies were sometimes favoured for new positions created by acquisition. The ensuing sense of frustration was evident amongst some interviewees and may have contributed to the resignation of so many directors following acquisition and to the problems that were encountered (see section 7.6i).

The swing of power away from senior executives in acquired companies was reinforced by the introduction of group procedures and rules governing their role performance. For example, the increased emphasis upon management accounting techniques such as long-range planning, formalised capital expenditure control, and iterative procedures for budget-approval, served to define parent company expectations of the acquired company and to limit freedom and power.

When performance is governed by rules and is therefore predictable role incumbents find it difficult to build power bases (Crozier 1964, Mechanic 1962, and Thompson 1967). The reader will recall that these techniques were also subject to high degrees of conformity with group practices, an approach which would assist in establishing certainty and predictability. Planning techniques also gave rise to the greatest level of resistance and problems. These strongly negative characteristics may have been caused by a pincer effect. On one side the individuals most affected were those who had suffered the greatest loss of power. On the other side, the total amount of power was increasing, because of the enhanced uncertainties - environmental and technological - facing many organisations (Crozier 1964) following acquisition: but because major policy decisions were taken at a higher level they were also denied a share of the increased power. Even their freedom to introduce unique assumptions into plans and budgets was frequently restrained by a requirement that common planning assumptions, for example concerning economic trends, be adopted by all companies in a group.

Power was also denied to senior executives in acquired companies because the initiative for introducing change, including the provision of staff assistance, was very firmly in the hands of acquirers (see section 7.3). Furthermore, the speed with which changes were introduced in many companies, pre-empted efforts by incumbents to take advantage of a period of uncertainty to establish modified power bases. As already mentioned, the minority of acquirers which delayed the implementation of change had cause to regret the delay, partly because morale fell due to uncertainty, but also because incumbents seized the opportunity to enhance their power by taking unilateral decisions which were sometimes inappropriate.

Modification of power at lower levels. It seems likely that changes in power at lower management levels differed from those at the highest levels. There was, for example, evidence of increased emphasis upon MATs involving participation

(section 5.2) and the delegation of authority, and these trends were generally welcomed (section 7.5i). Individuals may have perceived such changes as enhancing their formal power and influence. However, because delegation and participation took place in accordance with procedures, specified as part of formal structure, they may have threatened or actually reduced real power in some instances, by restricting power which had been previously exercised informally.

At these lower levels of management it was largely operational controls which were involved. The reader will recall that, with the exception of monthly accounts and reports, day-to-day controls were subjected to considerably lower levels of conformity than budgeting or long-range planning (Chapter 6). Nevertheless, day-to-day controls became more widely used and increased in importance following acquisition (section 5.6ii). Thus there were definite pressures towards increased formality although the extent to which these were effective depended upon the willingness of individuals to co-operate.

At lower management levels there is probably more scope for the existence of informal structures which may develop despite their being incongruent with any formally intended plans (Mechanic 1962, p.351). This can occur as lower participants circumvent higher authority when, for example, the mandates of those in power are regarded as illegitimate (Etzioni 1961). Several situations have already been mentioned which may have caused alienation amongst lower participants in the companies studied. These included; pursuance of an unwelcome bid; failure to allay uncertainty; insufficient willingness to modify systems despite adverse feed-back on changes; and bias against staff of the acquired in respect of promotion. Much of the resistance and many of the problems (sections 7.5 and 7.6) were symptoms of, or were causes for, such alienation.

When lower participants become alienated from the organisation coercive power is likely to be required if its formal mandates are to be fulfilled (Etzioni 1961). Evidence has been presented that acquirers often reacted to unsatisfactory control situations - unsatisfactory by their formal standards - or to falling morale, by the rapid imposition of group controls, by tightening formal controls, and by adopting more stringent philosophies of a bureaucratic nature.

A further explanation for the changes in operational controls is that acquirers sought greater commitment through increased surveillance (Mechanic 1962, p355), with the intention that surveillance could be relaxed once commitment was achieved. Although considerable evidence was found to support the underlying idea that individuals in acquired companies needed to be 'policed', there was little evidence of any relaxation during the first two post-acquisition years. There seems to be some justification for surveillance because lower participants may seek to achieve power in ways which are contrary to the interests of the enterprise as a whole. For example, information may be filtered, blocked or even distorted by subordinates, causing superiors to become dependent upon them as a source of more complete knowledge, or even being misled (Pettigrew 1972). The problems are likely to increase:

Insofar as the problem of control-co-ordinating specialists, getting work done, securing compliance - is solved by rewards of status, power and promotion, the problem of obtaining accurate, critical intelligence is intensified. For information is a resource that symbolizes status, enhances authority and shapes careers. (Wilensky 1967)

Deeper meanings attaching to changes in MAS

This section considers the possibility that meanings, deeper than those already discussed, could have consciously or unconsciously, accompanied or indeed given added importance to the changes made in MAS. The changes have thus far been principally interpreted in terms of efforts to re-establish organisational equilibrium and, more briefly, in terms of the re-alignment of

power. However, the ability of MAS to modify human behaviour introduces the possibility that consideration of changes within the somewhat mechanistic framework associated with organisational integration and co-ordination provides too narrow an explanation.

51. Rationalisation of prior actions? The conformity introduced into MAS was strongly biased towards the systems of the acquirer rather than towards systems devised for the new enlarged organisation as might be implied from contingency theory. Two critical interpretations of this approach are: first, overwhelming dominance by the acquiring company; and second, neglect of the principles - however under-developed - that might guide the design of effective accounting systems. However, a more charitable explanation of the behaviour may be found in the 'garbage-can' view of accounting systems. This view may be particularly appropriate to organisations in situations of ambiguity concerning such matters as goals, technologies, participants and environment - situations which tend to be heightened by acquisition. In such circumstances accounting systems may be viewed as means of facilitating action through the technology of foolishness. A key tenet of the technology of foolishness is to make sense of what has been done (Cooper et al, 1981). As March (1971) suggests:

... it seems to me perfectly obvious that a description that assumes goals come first and action comes later is frequently radically wrong. Human choice behaviour is at least as much a process for discovering goals as for acting on them.

Weick (1969) has argued that:

... goals are tied more closely to actual activities than has been realized, and that they are better understood as summaries of previous⁽¹⁾ action. Much of the organizations' work does not seem to be directed towards goal attainment. Instead, it can be understood more readily as actions with a primitive orderliness, this orderliness being enhanced retrospectively when members review what has come to pass as a result of the actions.

(1) Emphasis added.

Perhaps the desire to retrospectively rationalize and legitimize an acquisition may be conveniently met by using accounting information presented in a form already familiar to senior executives in the acquiring company. Furthermore, they will already possess well-developed and widely accepted norms, or rules, to be followed when playing the game of interpretation and justification. Rationalization will also be facilitated if fewer ex ante goals have been set. Possible evidence for this was found in several ways in the study, firstly, there was the anomaly of only about half of acquirers conducting moderate or careful planning of acquisition despite using corporate planning (chapter 4). Secondly, the responses to the question concerning the setting of financial objectives prior to acquisition were approximately equally divided between "no objectives set", "loose objectives set", and "definitive objectives set". There was a notable vagueness about objectives, both financial and quantitative. Also several acquirers admitted that having acquired the company they "did not quite know what to do with it". This response was not from companies which had pursued opportunistic acquisitions but from those claiming that the acquisition was in pursuance of a strategic theme.

The increase in the importance of long-range planning (section 5.1) seemed, prima facie, to be consistent with the views of those who exhort the activity of planning as valuable in its own right. For example, Horngren (1977) suggests "The planning role of all levels of management should be accentuated and enlarged by a budgetary system. Managers will be compelled to look ahead and will be ready for changing conditions. This forced planning is by far the greatest contribution of budgeting to management". A similar emphasis is adopted by Hoffman (1965): "Another contributor to ineffective performance is the failure of most groups to organise or plan their attack on the problem".

However, this traditional emphasis is called into question by Weick (1969) who considers that "A plan works because it can be referred back to analogous actions in the past, not because it accurately anticipates future contingencies ... The important property of a plan is the way in which it determines how one views the past". Thus plans seem to be more important in the context of

justification and legitimation than in the context of prediction. This view creates a dilemma when applied to a post-acquisition situation for, although managers may desire to justify their decision to acquire, there may be no analogous event. Thus planning, or indeed budgeting, if rationalisation or justification is intended, may become meaningless.

"It is wasteful to spend time trying to anticipate future contingencies, because one can never know how things will turn out. If, instead, actions were taken which then could be viewed reflectively and made sensible, there is a greater likelihood that efficiency would improve". (Weick p.102). This idea is consistent with the views of several of the executives interviewed who were becoming more and more convinced that long-range planning was a wasteful exercise due to the increasing unpredictability of the business environment. Nevertheless, these feelings were not sufficiently strong to lead to the abandonment of planning. Perhaps motivation for continuing may be found in the view expressed by Cohen and March (1974), that planning is a pretext under which a number of valuable activities take place - but forecasting is not one of them.

Further evidence from the study of the use of accounting data as ex-post justification for management decisions was the use of marginal cost information (section 5.4) and also the request made to some acquired companies to re-budget more in line with the expectations held by the acquiring company. In a similar manner Bower (1970) discovered that capital budgeting procedures were mainly used to justify investment decisions already made, rather than providing information upon which to base a decision.

Retrospective goal discovery ?

The intensity with which conformity of MAS was pursued can possibly be interpreted as a process of retrospective goal discovery although superficially it appears to have been a process of bureaucratization. As Cooper (1981) suggests in relation to budgeting:

Thus, if goals are discovered through action, and we make sense of actions retrospectively, the notion of a budget as a quantified statement about future preferences (the foundation of conventional wisdom) simply does not hold. Rather, as part of the rationalization process of retrospective goal discovery, it appears that by performing the budget process - forecasting, developing standards and evaluating results - an organisation may be discovering its goals.

This contradiction of conventional wisdom can possibly draw greater support from the post-acquisition situation than from the more normal ongoing situation. Acquisition is often attended by high risk, both financial - usually a substantial premium above share market prices is paid with detrimental effects upon earnings per share - and because of the lack of knowledge about the acquired company. In these circumstances there is pressure to ensure the acquired company performs well but the acquirer is ill-equipped to set goals. Thus the acquirer may place considerable emphasis, in terms of importance and speed of change, upon selected MATs, such as monthly accounts and budgeting, in order to justify the original decision to acquire and as a basis for future goal-setting. In ongoing situations this discontinuity of information does not occur and the goal-setter generally has full access to, and understanding of, past performance and is thus able to set goals which interact with past performance and serve to legitimise past actions.

Siii MAS as conveyors of management philosophy

It was beyond the scope of the study to measure detailed effects of changes in MAS at an operational level within companies. There was a danger, therefore, that changes would be observed only at group-divisional or divisional-company levels where MAS could be expected to appear more as bureaucratic-type controls, used to facilitate overall co-ordination and integration, rather than as more flexible operational controls.

Each management accounting technique studied was capable of being used in a variety of ways to accommodate the needs of different companies or to meet changing business conditions. However, careful questioning of respondents suggested that flexibility and adaptability were reduced because of the far-reaching effects of conformity. For example, the introduction of standardised formats and timing, tighter targeting, hierarchical screening procedures, and

different approaches to the interpretation of performance tended to completely alter the character of control processes. These alterations were not confined to group-divisional or division-company controls but were likely to extend, by means of a rippling effect, throughout the acquired company and to be interpreted as fundamental modifications in management style. As expressed by Cooper et al (1981), internal accounting systems "... reflect the status quo, the appropriate and acceptable way of doing things and talking about issues".

The possibility that the design of MAS could be subject to political processes reflecting ideological values was mentioned in chapter 1. When this possibility was considered, along with the idea that the true motives for acquisition may be disguised, then modifications in MAS, which were rated as both important and extensive, provided potentially powerful means for introducing revisions in management philosophy; revisions, which were made overtly and covertly.

The introduction of conformity in the mechanics of MAS provided a good example of open changes and frequently the systems to be adopted were specified in an accounting manual, copies of which were invariably given to acquired companies. Even though discretion could be exercised concerning conformity for some controls, notably less important operational controls, the inclusion of recommended formats for such controls provided some coercion towards conformity. The communication of formal levels for delegated capital expenditure control, budget targets or long-range planning objectives were further open expressions of what was expected of acquired companies.

However, the manner in which such expectations were communicated and how they were expressed conveyed messages about management philosophy. For example, the expectations may have been the outcome of participative processes where supportive attitudes were adopted by acquirers, or of unilateral imposition where the acquirer was dominant and aggressive. The targets may have been set

in broad terms with the proviso that these were general guidelines only and provided scope for the acquired company to deviate without being criticised. Alternatively, they may have been expressed very rigidly in terms of financial indicators such as minimum return on capital employed, cash flow, earnings per share, market penetration and so on; backed up by inflexibility or by criticism in the event of deviation.

In the sensitive conditions, created by uncertainty following acquisition, even overt changes were capable of being misinterpreted. Any changes, albeit seemingly minor, could be construed as important messages and lead to unintended distortion. Such conditions also facilitated covert communications and these may have contradicted the declared policy. For example, some of the acquirers studied professed a desire to foster autonomy and growth in acquired companies but adopted critical attitudes towards performance or management methods. It was mainly by covert means that revised organisational norms, beliefs, and attitudes towards the preparation and interpretation of accounting controls became inculcated.

THE IMPLICATIONS FOR THE DESIGN OF POST-ACQUISITION MAS

The evidence of this study suggests that existing practices in respect of financial planning and control systems following acquisition leave a great deal to be desired. The dilemma faced by the parent company is to gain effective control over the new acquisition, with reasonable swiftness, but without destroying motivation and momentum. Improvements would seem to be needed in respect of both the design of these systems and the management of change. This section concentrates largely upon the first of these, by considering some ideas which may facilitate the design of systems.

10.1 The need for more flexibility

If all the acquisitions had proved successful and relatively free from problems and adverse reactions, then perhaps the dominance of rigidity and conformity could be justified, for it bears many of the characteristics of the universalistic theory of MAS, namely, that MAS have a high degree of carry-over between different organisations. However, reality was different and attention is now turned to the desirability of more flexible and adaptive approaches.

It has already been suggested that it was perhaps a natural reaction to the instantaneous and sometimes very considerable growth achieved by acquisition, to extend and intensify control procedures. However, the stimulation of increased 'playfulness' might have been preferable. The function of play in generating ideas, facilitating learning and encouraging commitment to society was emphasised by Huizinga (1949) and adopted by Wagner (1978) in an organisational context. He suggested the use of play in "exploring alternative versions of the future" - a situation accentuated by acquisition. Indeed, organisational survival in ambiguous, dynamic environments may be assisted by permitting play and intuitive actions a role in the choice process even if this necessitates reduced emphasis on rationality and consistency. For example, as suggested by Hedberg et al (1976):

An organization should plan its future but not rely on its plans. ... Challenging current practices on the basis of plans is a means of creating the lead times needed for abrogating commitments, for unlearning, and for inventing new methods before they are required. Plans also serve as the key premises for appraising potential environments, for constructing performance measures that take account of future costs and benefits, for deciding which short-run demands actually warrant attention, for reacting to immediate problems in ways that do not destroy desired opportunities, and for reassuring members that changes will turn out well ... However, ... extremely detailed plans or plans extending far into the future waste problem-solving capacities and also discourage responsiveness (McNulty, 1962; Newman and Logan, 1955; Starbuck, 1965; Wickesberg, 1961). Moreover, plans and goals are frequently too systematic and rational; useful goals are somewhat unclear, and useful plans are somewhat disorganized, erratic and uncertain.

A further argument against the introduction of extensive rigidity and conformity may be based upon the work of Grinyer and Norburn (1975). They found no evidence that consensus about objectives, clearly defined roles, or formal planning, correlated positively with financial performance across twenty-one companies. Instead, financial performance was positively correlated with reliance on informal communication and the diversity of information used to assess company performance. It is conceivable, therefore, that the rapid introduction of conformity had two distinct disadvantages. Firstly, the formalisation of controls decreased reliance upon informal and self-controls and thus stifled the advantages of informal communication. This could be counter-productive because the suspicion and parochial behaviour which often follows acquisition - the 'them and us' syndrome - needs to be broken down rather than reinforced, and this is more likely to be achieved by dialogue rather than by creating feelings that the acquired company cannot be trusted. Secondly, the rich variety of management information which could offer the benefits suggested by Grinyer and Norburn (1975), was likely to be destroyed by the hasty dash to achieve conformity.

Open, flexible organisation structural styles have been advocated as more suitable than highly bureaucratic or mechanistic forms in uncertain situations (Burns and Stalker, 1961). Organisational members should be accorded greater discretion to enable them to solve problems, and control will thus focus "... to a large degree on planning and internal resource allocation, on monitoring outputs ... and on the selection, socialization, and professionalization⁽¹⁾ of organization members" rather than upon "... direct control measures which specify procedures and then evaluate performance in terms of adherence to those procedures ..." (Waterhouse and Tiessen 1978).

Flexibility is also a main tenet of contingency theory. It proposes that, because MAS are subject to such a wide range of influences, they should be situationally specific if they are to be effective. The implications of the theory for post-acquisition control are far-reaching but, as discussed in detail in section 8, there was only relatively weak evidence of these implications affecting the design of MAS in practice.

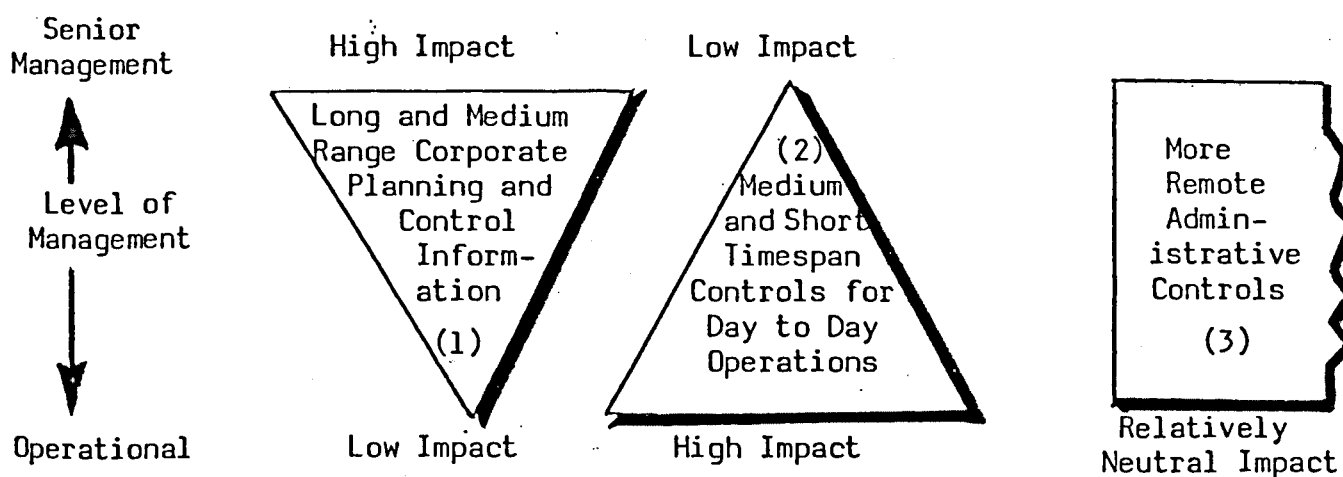
(1) Etzioni (1964) defined "professionals" as individuals who are formally trained to produce, preserve, communicate and apply specialised knowledge and who are thus equipped to apply knowledge to non-routine technologies or uncertain environments.

10.2 An improved approach to the design of post-acquisition MAS

10.2i Behavioural sensitivity

The degree of reaction, or behavioural sensitivity, displayed by individuals towards changes in the various components of control systems has been referred to on several occasions. Although there were some exceptions in special circumstances, notably concerning the removal of funds due to centralisation, reactions may generally be represented diagrammatically as follows:

Figure 6 Behavioural sensitivity of MAS



EXAMPLES OF MAS FOR EACH CATEGORY

Category (1)	Category (2)	Category (3)
Long-range Corporate Planning	Company Budgets	Treasury Information
Contingency and Strategic Planning	Departmental Budgets	Funds Control
Major Capital Expenditure and Investment Decisions	Working Capital Control	Internal Audit
Corporate Budgets	Operational Performance Reports	Taxation
Aspects of Annual Accounts used to judge Performance e.g. Earnings per Share	Ratio Analysis	Credit Control
	Delegated Capital Expenditure Control	Majority of Annual Accounts Information

The examples of MAS in each category are not exclusive to a particular level of management, rather, managers at all levels are involved with much of the information flowing within the organisation, but react differently to it. For example, the manager of a manufacturing sub-department may provide input to and receive feedback from long-range planning (LRP), but his involvement will be minimal and he is less likely to react strongly to any changes introduced in LRP procedures. He can, however, be expected to react strongly to alterations which tighten his cost standards or to changes in management philosophy which lead to increased criticism - for example, of adverse variances. In contrast, executives at a more senior level, may be relatively unconcerned about such operational problems but be very sensitive to changes in LRP procedures.

Control systems in category 3 are generally less likely to be imbued with such strong feelings. There is, therefore, less risk involved in the introduction of conformity between acquirer and acquired. Even so, the changes must not be imposed in a heavy-handed, or critical manner, but in accordance with the participative procedures mentioned in section 7.2. For acquisitions with low interdependence between acquired and acquiring companies, such as found in conglomerate acquisitions, few controls in addition to category 3 controls, may be required.

Category 3 includes one key area, funds control, which many acquirers seek to control quickly. As discussed in section 5.5 there are benefits to be derived from centralising funds control. It also seemed, from the companies studied, that more problems occurred when the implementation of centralised funds control was delayed or was indecisive. Providing the change process is handled well, so that no negative reactions are aroused, this seems to be an important control which should be implemented rapidly.

Recognition of these different categories of behavioural sensitivity may assist in deciding where to begin, and how quickly, to introduce changes in MAS. It can also assist, when combined with the suggestions made later in this section, in deciding the extent of any changes.

10.2ii A model for improved post-acquisition MAS

In this study different degrees of organisational match, as between acquisition partners, have been recognised in the classification according to acquisition style - vertical, horizontal, concentric marketing and technology, and conglomerate. By definition, partners to a horizontal merger had many things in common, particularly products and environmental influences such as competition or the pace of technological change. In contrast, conglomerate-style acquisitions had little in common except perhaps financing arrangements. Although some evidence has been presented (chapter 8) that organisational differences were accompanied by some variations in MAS, the desire for conformity was dominant. Contingency theory extends the concept of variation and implies that MAS should be tailor-made for each individual company. In a fully-developed form it may be envisaged that the theory would facilitate the selection of appropriate MATs, or the modification of individual MATs, to meet the requirements of each segment of an enterprise including those of each individual cost or profit centre.

Although the detailed prescription of MAS will not be attempted here it seems appropriate to re-direct attention away from the blanket approach to post-acquisition control, observed in so many instances in this study, towards a more selective and adaptive approach. By so doing some of the problems and absence of success may be avoided. Figure 7 utilises the concept of matching organisational variables which was adopted in chapter 8⁽¹⁾. Although equal weight was accorded to each variable certain variables may, in practice, be more important because of unique circumstances confronted by the acquisition partners. For example, environmental turbulence, caused by severe competition, rapid product innovations, or quickly changing technology, may be considered more important than 'organisational culture', because the ability to respond to the environment is paramount for survival.

(1) See appendix 9 for a detailed description of the methodology

Figure 7

Model for improved post-acquisition MAS

	Stable Environment	Turbulent Environment
High level of organisational match*	<p>Possibility open to achieve rapid conformity in all three categories (✓) of MAS</p> <p>(A)</p>	<p>Cat. 1 - limited adoption of parent key controls</p> <p>Cat. 2 - reinforce existing controls in acquired initially then slow blending of selected controls</p> <p>Cat. 3 - minimal conformity consistent with good stewardship</p> <p>(C)</p>
Low level of organisational match*	<p>Cat. 1 - limited adoption of key parent controls</p> <p>Cat. 2 - reinforce existing controls in acquired</p> <p>Cat. 3 - possibility open for rapid conformity</p> <p>(B)</p>	<p>Cat. 1 - limited adoption of minimal number of key controls</p> <p>Cat. 2 - reinforce existing controls in acquired</p> <p>Cat. 3 - minimal conformity consistent with sound stewardship</p> <p>(D)</p>

The model presupposes that the acquired and acquiring companies are successful. If not, then all aspects of the companies, including MAS, may need to be reviewed and the adaptation of MAS would not necessarily follow the model.

Cell (A) illustrates that when both companies have closely matching organisational variables and operate in a stable environment, then it may be appropriate to seek conformity in all three categories of MAS. However, if the organisation increases significantly in size, as a result of the acquisition, it may be desirable to modify MAS in both companies.

(✓) The categories of MAS are those used in figure 6 and described in section 10.2i.

* Organisational match is measured by the match between contingent variables in acquired and acquiring companies (see appendix 9).

Acquisitions within this category are likely to be horizontal in style with partners having a great deal in common.

In cell (B), both companies operate in a similar, or perhaps the same environment (as in the case of a horizontal acquisition), but there are few other similarities between the organisations. Perhaps the acquired company is much smaller, dominated by its founder and run with little delegation of authority and few formal controls, whilst the acquirer is a long-established largely bureaucratic organisation. If the acquirer insists upon conformity with group MAS - 'as specified in the comptrollers' manual' - then the controls may be alien and lead to unintended consequences, such as resistance and a loss of motivation. So the emphasis should be upon: conformity in remote controls (category 3) which attract lower behavioural sensitivity but facilitate sound stewardship; the adoption of a limited number of key controls from category 1 - for example, the introduction of group disciplines for formal capital expenditure appraisal and control; and the reinforcement of existing operational controls (category 2), so that the existing management style and behaviour norms are preserved and encouraged. If thought essential, copies of key control documents, for example, monthly accounts and reports, could be sent to the parent company. In this connexion it is interesting to contrast the high level of importance accorded to monthly accounts by companies in this study with the findings of Juran and Loudon (1966): "The current month's performance is not that important to the Board. It is not the basis for changing the program, passing the dividend, writing a policy, or any other board action". It is likely to take considerable time to re-educate managers in the acquired company to the ways of the acquirer, even if this is desirable. Ideally, agreement to any changes in controls should be reached before the acquisition deal is completed.

In cell (C), although there is a high level of organisational match,

it would be a mistake to disturb the control systems of the acquired (particularly operational controls- category 2) because the company must continue to be highly responsive to environmental changes. As mentioned in Part I, MAS have been criticised for their lack of flexibility. Any moves to adopt the operational controls of the acquirer might reduce responsiveness which was probably a contributory factor to success prior to acquisition.

In cell (D) the companies have little in common and both need highly responsive MAS capable of reacting to the rapidly changing environment. In such circumstances it would be inappropriate for the acquirer to insist upon a high degree of conformity in MAS. So emphasis should be placed upon developing operational controls peculiar to each company with minimal conformity, consistent with responsible stewardship, in categories 1 and 3.

Cells (B), (C) and (D) each refer to the "limited adoption of key parent controls" associated with category 1. Cell (A) is alone in permitting rapid conformity for all categories of MAS. Each acquirer is likely to have different ideas as to what constitutes key controls in the context of post-acquisition control. Some acquisitions introduce special factors which require immediate co-ordination and control. For example, if an important objective of acquisition is to achieve continuity of supply of materials, actions may be needed to reduce commitments to third party customers if the demand exceeds supply. Other possible sources of conflicting interests are wage bargaining, transfer pricing, competing for the same custom, recruitment and redundancy policies, advertising, and public relations. Many of these are management problems but some may require modifications in financial systems.

Apart from such special factors there are two key financial areas where control should be introduced both decisively and quickly; firstly, from category 1, guidelines on capital expenditure policies. These need not, and in many cases should not- at such an early stage - be allowed to modify

existing frameworks for delegated capital expenditure control. These frameworks come into category 2, operational controls, and are subject to high behavioural sensitivity at lower levels of management. It is at these levels that individuals know least about the acquiring company, because their contact will have been minimal or non-existent. Thus any changes must be introduced with sound management-of-change practices. Secondly, funds control policy must be communicated and broad control introduced, although detailed compliance with all reporting procedures may be deferred. As these changes fall within category 3 behavioural sensitivity is likely to be lower. The introduction of both of these key financial controls should be discussed, preferably before the acquisition deal is completed, and any objections aired and resolved.

10.2iii Comparison of adaptation of MAS with success or failure.

A detailed description of the methodology adopted to test the validity of the model proposed in figure 7 is given in appendix 13. However, a brief description may be helpful. Each acquired company was classified along two dimensions into one of the cells A,B,C or D. The first dimension used measures of competition and the pace of technological development (questions 2.2 and 2.4 respectively in appendix 10) as indicative of the degree of environmental turbulence faced by each acquired company. The second dimension used the responses to six questions (see appendix 9) concerning the diversity of organisational characteristics as between each pair of acquisition partners as at the time of acquisition. The characteristics included organisational size, goals, and structural differentiation, and they were measured using the same methodology as for testing the contingency theory of MAS (section 8.3 and appendix 9).

The cell classification thus derived provided a theoretical expectation for the adaptation of MAS, reflecting the conformity which might be expected between acquirer and acquired, for each of the three categories of

MAS. This expectation was then compared with the actual pattern of conformity adopted using the measurements adopted in chapter 6. Companies which had adopted conformity in line with the theoretical expectation (figure 7 and appendix 13) were designated 'consistent', and those not in accordance, 'inconsistent'. Finally, these designations were compared with 'success' or 'failure' criteria (described in section 9.1) The findings are presented in table 24.

Table 24 Comparison of adaptation of MAS with success or failure

Adaptation Expectation v actual adaptation	Number of companies				Total
	Successful	Partially Successful	Partial Failure	Failure	
Consistent *	4 (0)	6 (1)	- -	1 (1)	11 (2)
Inconsistent *	1 (1)	4 -	6 (2)	4 (3)	15 (6)
				Not known	4

* The figures in parenthesis refer to companies which were unsuccessful prior to acquisition.

The four companies with the greatest post-acquisition success displayed very close consistency with the theoretical expectation, they also experienced the least problems during the post-acquisition period (discussed in chapter 7). They represented four different styles of acquisition and thus provided a wide-ranging test of the model. Only one of the successful acquisitions introduced conformity into the three categories of MAS which was inconsistent with the model.

As post-acquisition success decreased, so inconsistency seemed to increase. Only six of the ten partially successful acquisitions were consistent whilst four were inconsistent. Amongst the partial failures and failures,

inconsistency increased and only one out of eleven acquisitions adopted changes in MAS which were consistent with the model. However, the failure categories also included six companies which were unsuccessful prior to acquisition (figures in parenthesis in table 24), and for which consistency with the model would not be expected, although it might occur. In fact, most acquirers in these cases introduced rather more conformity in MAS than was desirable according to a comparison of organisational variables (see note 9 appendix 13); an indication, perhaps, that the acquirer felt that more control, rather than less, was appropriate for such companies.

Thus the test revealed considerable association between post-acquisition success and the introduction of a level of conformity in MAS which was consistent with the organisational and environmental differences of the acquisition partners; and conversely, the absence of such matching was associated with post-acquisition failure.

10.3 Concluding remarks

At the commencement of this research the writer had reasons to believe, based upon personal experience and the documented evidence of acquisition failures, that the control of acquired companies presented considerable problems; also that accounting-type controls probably played a much more important role in this control process than was generally acknowledged. However, the literature on post-acquisition management contained few direct references to accounting-type controls and those revealed disparate views concerning the adaptation of such controls in acquired companies. The predominant view implied that order and discipline could be instilled in the acquired company by the somewhat mechanical extension of the parent controls. However, the evidence of this thesis, both theoretical and empirical, suggests that such a view is naive.

The research had three main objectives and the major findings are now restated and related to these objectives:

Objective 1 "To consider the nature and context of management accounting systems (MAS) and the possible influences of broader management studies upon the design of post-acquisition MAS."

Management accounting systems form an integral part of an organisation's structure and processes to effect control. Their importance stems from the ability to facilitate organisational integration, to motivate, to assist decision-making and to provide measurements of performance through enabling characteristics such as the delegation of authority, communication of objectives, participation, and informational feedback. The delicate balance of the framework of organisational control is likely to be disturbed by acquisition and the restoration of equilibrium makes new demands upon MAS as facilitators of integration, motivation etc. MAS are subject to many environmental and internal influences which are closely similar to, if not the same as, those which influence organisational structure. Thus effective MAS are likely to be situationally specific rather than universal in application and the design and implementation of post-acquisition MAS can assist in achieving the optimum degree of control.

Objective 2 "To identify how acquiring companies, making acquisitions which were similar to, or perhaps very different from, the parent company, modified and used MAS in order to establish control."

Even companies which considered corporate planning to be of great importance did not always undertake careful or even moderate planning of acquisitions and some were vague in establishing goals. All management accounting techniques (MATs) assumed significantly greater importance in acquired companies following acquisition, although there were changes in emphasis. Techniques capable of effecting control and integration, such as monthly accounts, budgets, and formalised capital expenditure control, became relatively more important than techniques related to the internal control of operating companies such as cost/profit centres and variance reporting. The extent of changes in importance of MATs was similar for each style of acquisition but differed according to the size of acquired company, probably because management was able to exercise greater choice, prior to acquisition, over the use of certain MATs.

The modification of MAS reflected changes in management style, particularly an increase in formality and in the delegation of authority. Changes in MATs accorded the highest importance were introduced most quickly.

A high level of conformity, with the practices of acquiring groups, was introduced into all MATs concerned with the provision of information for overall control or co-ordination. However, the conformity introduced to some operating controls differed markedly between companies. The degree of conformity introduced was independent of the importance attached to each MAT.

Although the majority of acquirers discussed changes in MAS with the acquired company following completion of the acquisition deal a considerable number imposed changes with little or no consultation. There was evidence that the use of consultative practices was associated with post-acquisition success and changes in MATs reflecting more open or participative styles of management were generally welcomed. MATs involving greater degrees of change caused more technical difficulties to implement and induced lower willingness to co-operate. Also, technical difficulty and resistance were often associated with increases in importance and conformity.

Numerous problems were identified arising from the changes introduced in MATs and because of the lack of competent managers of change and differences in prevailing management styles and personalities within acquisition partners. These problems, coupled with the relatively high level of dissatisfaction expressed by those responsible for change, emphasised that inappropriate approaches to changes in MAS caused considerable dysfunctional effects.

The contingency theory of MAS was interpreted as having important implications for the design of post-acquisition MAS. There was some empirical evidence that acquiring companies responded to increased environmental dynamism - which was coincidental with and probably intensified by acquisition - by placing more importance upon forecast information, increased quickness, and upon non-financial information. Evidence was strong of similar increases in sophistication in MATs in acquired companies and of greater compartmentalisation of information. These changes were associated with, and probably facilitated, the introduction of more

complex organisational structures. They were also partly coincidental with increasing environmental dynamism and or environmental heterogeneity. However, the changes could also be interpreted as mainly responses to pressures to conform with the controls of the parent company.

The differences between environmental and organisational variables in acquired and acquiring companies were not permitted to become strong influences upon the determination of the degree of conformity in MAS between acquisition partners; rather the priorities of integration and control caused other MAS determinants to become subservient. Only a minority of acquiring companies were prepared to adopt modified MAS for the enlarged enterprise.

Objective 3 "To draw implications for the design of MAS and for the introduction of changes to MAS following acquisition."

The changes, even those which enhanced the responsibility and freedom of individuals, were seen as consistent with the process of bureaucratisation characteristic of large organisations. Inter-personal contacts between individuals in acquired and acquiring companies were interpreted, in the context of post-acquisition control, as means of reinforcing, rather than reducing formal paper-work controls.

The swing of power away from senior executives in acquired companies was frequently reinforced by the introduction of group procedures and rules governing their role performance. In contrast, the power of lower participants was probably enhanced by greater delegation of authority and the scope created for the circumvention of higher authority which was regarded as illegitimate or caused alienation. Acquirers often reacted to situations which became out-of-control by tightening formal MAS.

Relaxation of consideration of the changes in MAS within the somewhat mechanistic framework associated with organisational integration and co-ordination admitted alternative explanations for the changes. The changes in accounting information were viewed as a means of retrospectively rationalising and legitimising an acquisition, of searching for goals for the enterprise, and

of conveying messages about management philosophy.

The incidence of problems and adverse reactions, together with the lack of success of so many acquisitions, challenged the dominance of rigidity and conformity in the adoption of MAS. In the uncertain conditions following acquisition, and to be consistent with the main tenets of contingency theory, more flexible approaches to post-acquisition control might have proved more successful.

Recognition of the different levels of behavioural sensitivity pertaining to different categories of MAS can provide a guide as to where, and how, to introduce changes in MAS. More selective approaches would seek to identify the extent of matching between organisational and environmental variables of the partners. This would enable the degree of conformity to be applied selectively to different categories of MAS. The application of the proposed approach to the companies studied revealed an encouraging level of association between correctly matched MAS and post-acquisition success and between the absence of matching and post-acquisition failure.

The successful introduction of change is a skilful management task which depends upon the personal chemistry of the changer and changee and how they react to each other, and upon the extent to which the changee feels the changes to be necessary and desirable. Successful introduction of change also depends upon recognising that MAS can influence human behaviour in an organisational setting and that MAS are subject to many influences from outside and within an organisation. MAS are capable of making an important contribution to post-acquisition organisational aims such as the needs for integration and motivation. However, to do so they must be carefully designed, and implemented with certainty and confidence, so that they are less likely to be resisted or distorted.

It is not claimed that MAS can make an acquisition a success. Even if they are designed and modified correctly, they may only pave the way for the

operation of other factors which create success. What seems more likely is that the introduction of inappropriate MAS can cause, or at least be a contributory factor to, acquisition failure.

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METHODOLOGY FOR INDICES OF CHANGE IN IMPORTANCE OF MAS

Respondents were asked to consider the importance to the acquired company of each management accounting technique (MAT) actually being used at (a) the time of acquisition and (b) at the time of the interview (this was approximately two years after acquisition). Their opinions were ranked on an ordinal scale as follows:

- 0 = technique not used
- 1 = technique considered to be of little importance
- 2 = technique considered to be of moderate importance
- 3 = technique considered to be of great importance

In the tables in chapter 5 the frequencies of responses are shown for each possible combination. For example, a score of 0 - 3 indicates that at the time of acquisition the technique was not used (score 0) but after two years had become of great importance (score 3).

Using these scores an index was constructed showing the overall degree of change. This was calculated by expressing the sum of the differences in each score group multiplied by the frequency of each score, as a percentage of the maximum change score possible. For example:

Score	Frequency
0 - 1	3
0 - 2	7
1 - 3	5
	<u>15</u>

became
$$\frac{(1 \times 3) + (2 \times 7) + (2 \times 5)}{15 \times 3} \times 100 = 62.2$$

Thus an index of 62.2 indicated that, on average, the degree of change was considerable, crossing almost two, of the possible three, bands of importance.

FREQUENCY OF CHANGES IN IMPORTANCE OF GROUPED MANAGEMENT
ACCOUNTING TECHNIQUES IN ACQUIRED COMPANIES *

	Planning Procedures	Budgeting	Capital Expenditure Controls	Operational Controls	Weekly Cash Flow Report & Internal Audit
Increased Importance	34	32	37	55	19
No Change	22	26	22	90	35
Decreased Importance	4	2	1	5	6

The observed frequencies shown above were compared with a hypothetical expectation that increases, decreases or no-changes in the importance of management accounting techniques might occur with equal likelihood following acquisition. The resultant chi-square value (174.8) was significant, with eight degrees of freedom, at greater than the 1 per cent level, leading to rejection of the null hypothesis that the observed changes in MATs occurred independently of acquisition.

A further hypothesis - that no changes whatsoever should occur in the importance of MATs following acquisition - was similarly rejected.

* Data compiled from appendix 3

ANALYSIS OF IMPORTANCE SCORES FOR MATs IN ACQUIRED COMPANIESMethodology

Appendix 3 contains a further analysis of the importance scores presented in tables 3 - 7 with the addition of scores for weekly profit reports. It provides an indication of the importance of each technique in the acquired company both at the time of acquisition and approximately two years thereafter. For example, the following responses and frequencies

Score	Frequencies
1 - 3	2
2 - 3	4 ✓
2 - 2	1 ✓ ✓
3 - 1	1
3 - 2	1 ✓

show that 5 (✓) acquired companies considered the techniques to have moderate importance (score of 2) at the time of acquisition but only 2 (✓) companies felt this to be the post acquisition level of importance. The sum, of the frequencies multiplied by the actual scores, has then been compared with the maximum score possible, to provide an index of importance.

Analysis of Importance Scores for MATs in Acquired Companies

	Frequency of Scores								Indices of Importance	
	At time of Acquisition				Approx. two years after Acquisition				At Acquisition	Post Acquisition
	Score 0	1	2	3	Score 0	1	2	3		
Long-Range Planning	15	5	6	4	3	5	7	15	32.2	71.1
Strategic Planning	18	6	4	2	8	3	7	12	22.2	58.9
Budgeting in Operating Companies	4	5	7	14	0	0	1	29	67.8	98.9
Participative Budget-Setting Companies	8	6	4	12	0	2	3	25	55.6	92.2
Formalised Cap. Exp. Appraisal and Control	9	6	5	10	0	0	4	26	51.1	95.6
Delegated Authority for Cap. Exp.	11	5	2	12	1	2	0	27	50.0	92.2
Monthly Accounts and Report	9	3	3	15	0	0	1	29	60.0	98.9
Weekly Profit Report	27	1	0	2	26	0	0	4	7.8	13.3
Variance Reports in Companies	6	3	8	13	1	1	6	22	64.4	87.8
Cost/Profit Centre Control	3	3	7	17	0	1	8	21	75.6	88.9
Marginal Costing for Decision-Making	10	4	9	7	1	1	9	19	47.8	85.6
Weekly Cash Flow Reports	19	0	1	10	15	3	2	10	35.6	41.1
Internal Audit in Companies	25	2	1	2	14	3	4	9	11.1	42.2

The scores represent:

- 0 technique not used
- 1 technique of little importance
- 2 technique of moderate importance
- 3 technique of great importance

Indices are calculated thus:

$$\frac{\sum (\text{frequency} \times \text{actual score})}{\sum \text{frequencies} \times \text{maximum score possible}} \times 100$$

e.g. LRP $\frac{(15 \times 0) + (5 \times 1) + (6 \times 2) + (4 \times 3)}{30 \times 3} \times 100 = 32.2$

	Increase in Importance Frequency of Changes			Decrease in Importance Frequency of Changes			No Change	* Indices of Change	
	1 Point	2 Points	3 Points	1 Point	2 Points	3 Points		Increased	Decreased
Long-Range Planning	6	5	8	3	1	-	7	70.2	41.7
Strategic Planning	3	6	6	-	-	-	15	73.3	-
Budgeting in Operating Companies	7	5	4	1	-	-	13	60.4	33.3
Participative Budget-Setting in Companies	4	6	6	1	-	-	13	70.8	33.3
Formalised Cap. Exp. Appraisal and Control	6	5	8	-	-	-	11	70.2	-
Delegated Authority for Cap. Exp.	2	7	9	-	-	1	11	79.6	100.0
Monthly Accounts and Report	3	3	9	1	-	-	14	80.0	33.3
Weekly Profit Report	-	1	2	-	-	1	26	88.9	100.0
Variance Reports in Companies	5	4	3	1	-	-	17	61.1	33.3
Cost/Profit Centre Control	3	3	2	1	1	-	20	62.5	50.0
Marginal Costing for Decision- Making	7	4	6	-	-	-	13	64.7	-
Weekly Cash Flow Reports	1	-	4	1	2	1	21	86.7	66.7
Internal Audit in Companies	3	4	7	1	-	1	14	76.2	66.7
% of Total Sample in Each Category	12.8	13.6	19.0	2.6	1.0	1.0	50.0		
Index of Change (Weighted Average)								71.2	55.6

* See also Indices of Change in Tables 3-7 and Description of Methodology (Appendix 1)

RANKINGS OF INDICES OF ACTUAL CHANGES IN IMPORTANCE
OF MATs COMPARED WITH POTENTIAL CHANGE IN IMPORTANCE
(BY ACQUISITION TYPE)

	Ranking			
	All Companies	Horizontal	Concentric	Conglomerate
Long-Range Planning	8	7	9	7
Strategic Planning	10	6	10	9
Budgeting in Operating Coys	2	1=	1	4
Participative Budget-Setting	5	5	4	7=
Formalised Cap. Exp. Control	3	1=	5=	2
Del. Auth. for Cap. Exp.	4	1=	5=	3
Monthly Accounts	1	1=	2	1
Weekly Profit Report	13	12	12=	12=
Variance Reports	7	11	3	10
Cost/Profit Centres	9	10	8	5
Marginal Costing for Decisions	6	9	7	5
Weekly Cash Flow Reports	12	8	12=	12=
Internal Audit	11	13	11	11

Methodology. The rankings above reflect the order of importance of the indices of change in importance for each MAT within each sub-group of acquisition types. Each index measures the extent of actual changes in importance (appendix 4) compared with the potential for change, that is, the number of points required to raise each score in appendix 3 to the maximum level of importance of '3'. Hence the index for long-range planning becomes:

$$\text{from appendix number - (4)} \quad \frac{(6 \times 1) + (5 \times 2) + (8 \times 3) - (3 - 1) - (2 \times 1)}{(3) \quad (15 \times 3) + (5 \times 2) + (6 \times 1)} = \frac{35}{61} \times 100 = 57.4$$

The rankings were used to calculate the Spearman rank correlation coefficients shown in table 10.

Appendix 6

STRATIFICATION OF SPEED OF CHANGES IN SELECTED
 MATs BY ACQUISITION TYPE

	Horizontal	Vertical	Concentric Technology	Concentric Marketing	Conglomerate	Mean
Long-range Corporate Plg	9	8	6	8	10	8.9
Short-term Strategic Plg	8	8	5	7	6	6.7
Formalised Cap. Exp. Control	5	2	0	3	5	3.7
Budgeting in Operating Coys.	5	2	4	4	2	3.6
Monthly Accounts and Reports	3	3	6	2	2	3.8

Average speed in months

Chi-square value (8.97) was not significant at 1 per cent level thus supporting the null hypothesis that the observed speeds of change in MATs occurred independently of acquisition type.

Analysis of Technical Difficulty and Resistance Scores for MATs in Acquired Companies

	Frequency of Scores										Index of Technical Difficulty	Index of Co-operation /Resistance
	Technical Difficulty				Co-operation/Resistance							
	Score 0	1	2	3	Score 0	1	2	3	4	5		
Long-Range Planning	2	1	5	3	-	2	4	4	-	1	61	49
Strategic Planning	-	1	3	3	-	1	3	2	-	1	76	51
Budgeting in Operating Companies	4	4	1	3	2	7	-	3	-	-	42	27
Participative Budget-Setting in Companies	5	3	3	1	2	5	3	2	-	-	33	28
Formalised Cap. Exp. Appraisal and Control	-	9	1	1	-	5	2	3	1	-	42	40
Delegated Authority for Cap. Exp.	5	4	3	-	1	4	6	1	-	-	28	32
Monthly Accounts and Report Variance Reports in Companies	3	4	4	1	1	6	3	2	-	-	42	30
Cost/Profit Centre Control	6	-	3	1	3	3	3	1	-	-	30	24
Marginal Costing for Decision-Making	5	-	5	-	3	4	-	3	-	-	33	26
Weekly/Monthly Cash Flow Reports	2	2	5	1	2	3	5	-	-	-	50	36
	4	4	4	-	2	6	2	2	-	-	33	27
% of Responses in Each Category	30	27	31	12	13	39	26	19	1	2		

(1) Scores are only recorded for MATs used

(2) Technical Difficulty:

- Score 0 = No difficulty
- 1 = Little difficulty
- 2 = Moderate difficulty
- 3 = Great difficulty

(3) Co-operation/Resistance:

- Score 0 = Enthusiastic co-operation
- 1 = Mild co-operation
- 2 = Resigned acceptance
- 3 = Little resistance
- 4 = Moderate resistance
- 5 = High resistance

ANALYSIS OF IMPORTANCE SCORES FOR ACQUIRING COMPANIES
ACCORDING TO ENVIRONMENTAL TURBULENCE

Competitive Environment Pace of Technological Change	Moderate Competition			Severe Price Competition			Severe Product Plus Severe Price Competition		
	LRP	Strat.P	Simul.	LRP	Strat.P	Simul.	LRP	Strat.P	Simul.
Relatively Slow				3-3	0-0	1-1	3-3	1-1	0-0
	3-1	3-1	0-0	3-3	0-0	1-1			
	2-2	2-2	0-0	3-2	3-3	2-2			
	3-3	3-3	3-3	3-2	3-3	2-2			
				1-1	3-3	0-0			
	1-1	1-1	0-0	3-3	3-3	3-3			
				3-3	3-3	0-0			
				0-1	0-0	0-0			
				0-1	0-1	0-0			
				3-3	0-0	0-0			
			0-2	2-2	0-0				
			3-3	0-0	0-0				
Moderate	1-1	3-3	0-0	2-3	3-3	2-3	2-2	0-0	1-1
	2-1	0-0	2-2	3-3	3-3	0-0	0-0	0-0	0-0
				3-3	3-3	2-2			
	2-3	0-0	2-2	3-3	0-0	2-2			
Rapid							1-3	0-3	0-1
							3-3	3-3	2-2
							3-3	3-3	0-0

This appendix shows the importance scores for long-range planning, strategic planning and simulation by acquiring companies. The first score of each pair gives the importance of the technique at the time the company undertook the acquisition and the second, the score approximately two years later at the time of the study. The scores are grouped according to the competitive environment and pace of technological change which respondents considered the acquiring company faced.

METHODOLOGY FOR MEASURING CONTINGENT VARIABLES

The environmental and internal organisational variables, which contingency theory suggests influence MAS, are of such a nature that precise definition and measurement are difficult if not impossible. For example, competition, even within the same market, is likely to be perceived differently in different companies, if only because corporate objectives or styles of management will differ. For this reason and also because respondents' time was limited, no attempt was made to devise objective measures for all the variables. Even for variables, such as size of organization, which could be measured objectively, the choice of measure was not completely clear. For example, should it be based on sales turnover, profit or numbers of employees? In this study turnover was chosen.

Respondents were asked seven questions (2.2, 2.4 to 2.9, see Appx.10) and their responses, together with information on turnover, provided direct or surrogate measures for eight of the ten variables (see figure 3.) as follows:

Independent variables (at the time of acquisition)		
Environmental Variables	* Competition	Number of question(s) providing direct or surrogate measure (see Questionnaire Appx.10) Q.2.2
	Technology - pace of change and complexity of production methods	Q.2.4; Q.2.5
Internal Variables	Size of organisation	Based on Turnover
	Organisational goals	Q.2.6
	Degree of structural differentiation	Q.2.1
	Management philosophy, e.g. re delegation decision-making	Q.2.7
	Prevailing culture	Q.2.9
	Choice by dominant coalition - power and influence	Q.2.8

* Variables as shown in figure 3 but omitting 'audit, legal and stakeholder requirements' and 'the cost of information'.

Most of the questions specified the qualities for acquirer and acquired companies and respondents were asked to provide rankings. For example, the competitive environment for the main product or product group provided a scale ranging from 'no competition' to 'severe price' or 'severe product competition'. Each variable was treated as having equal importance. The divergence between acquirer and acquired was measured according to the number of bands crossed with a maximum of three. For example, the following answers to question 2.2 ("Please describe the competition environment for the main product or product group") crossed three bands of importance:

	<u>ACQUIRER</u>	<u>ACQUIRED</u>
1. No competition		X
2. Very little competition		
3. Moderate competition		
4. Severe price competition	X	
5. Severe product competition	X	

An arrow points from the 'X' in row 4 to the 'X' in row 1, crossing three horizontal lines.

Some questions provided for answers over more than four ranks and these were compressed to maintain the equality of each variable. For instance, in the above example, severe price and severe product competition were treated as being synonymous.

For responses ranked:

<u>ACQUIRER</u>	<u>ACQUIRED</u>
1	4
2	2
3	1

the divergence was scored as "2", that is, mis-matching occurred in two categories.

Question 2.6, concerning company objectives, deserves special mention because up to eight choices were provided. However, most respondents considered 'maximise profit', 'dividend growth', and 'steady increase in earnings per share' to be closely similar, and these were grouped together in assessing the bands of divergence crossed.

The sum of the scores for the eight variables provided a measure of the difference, or divergence, between each acquisition partner.

SURVEY QUESTIONNAIRE (Acquiring company as prime respondent)

Parent company name (acquirer)

Acquired company name

Respondent's name

Respondent's position

INTRODUCTORY REMARKS.

This questionnaire is confidential for both person and company. Please feel free to add comments or qualifications to your answers. The use of the term 'merger' is to include 'takeover'.

Sections 1.0; 2.0 and 3.0 are appropriate for the general executive directing the acquisition,

sections 4.0; 5.0 and 6.0 for the senior finance executive involved with the post-acquisition period.

1.0 GENERAL BACKGROUND

1.1 Please specify the single most important reason why the possibility of a merger arose.

1.2 Please describe any changes in business conditions which have made the task of managing easier or more difficult since the merger.

Easier:

More difficult:

1.3 Please describe any financial objectives which were defined for the acquired company at the time of acquisition.

1.4 Please describe any other business objectives for the merger.

1.5 Can you please indicate some of the problems that occurred after the merger.

1.6 Which of these problems proved to be the most irritating and time-consuming to resolve?

2.0 DESCRIPTION OF THE ORGANISATIONS AT THE TIME OF ACQUISITION

2.1 Please describe the diversity of business activities (Please tick)

ACQUIRER ACQUIRED

- 1. High diversity (i.e. a conglomerate group)
- 2. Moderate diversity
- 3. Low diversity
- 4. No diversity

2.2 Please describe the competitive environment for the main product or product group

(Please tick)

- 1. No competition
- 2. Very little competition
- 3. Moderate competition
- 4. Severe price competition
- 5. Severe product competition

- | | ACQUIRER | ACQUIRED |
|---|--------------------------|--------------------------|
| 2.3 Please specify the main product or product group | <input type="text"/> | <input type="text"/> |
| 2.4 What was the pace of technological development in the main product or product group?
(Please tick) | | |
| 1. Zero | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Slow | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Moderate | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Rapid | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Very rapid | <input type="checkbox"/> | <input type="checkbox"/> |
| 2.5 How would you describe the manufacturing process for the main product or product group?
(Please tick) | | |
| 1. One-off simple operation | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. One-off complex operation | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Batch production simple operation | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Batch production complex operation | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Mass production | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Process production | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Some other | <input type="checkbox"/> | <input type="checkbox"/> |
| 2.6 Please select and assign a ranking of 1 to 4 (1 being the most important) to the four leading company objectives at the time of acquisition | | |
| 1. Provide stable employment | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Increase share of market | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Maximise profit | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Maintain technological excellence | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Survive | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Provide steady dividend growth | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Provide steady increase in earnings per share | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. Some other - please state | <input type="checkbox"/> | <input type="checkbox"/> |
| 2.7 How would you describe the prevailing style of management?
(Please tick) | | |
| 1. To provide strong central guidance and clearly defined operating procedures | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. To encourage autonomy of operating companies - even at the risk of sub-optimal group decisions | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. To encourage autonomy within clearly defined limits and with frequent head office monitoring | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Some other - please specify | <input type="checkbox"/> | <input type="checkbox"/> |

2.8 This is another rather general question and you are asked to take a broad overall view of each organisation.
Please rank in order of importance what you consider the prevailing manner in which information and decisions were communicated. (Please rank 1 - 4. '1' is most important)

ACQUIRLR

ACQUIRED

1. Through formal communications channels in writing
2. Through less formal channels but in writing
3. Through discussions at meetings
4. Through informal chat

2.9 At the time of acquisition, approximately what percentage of senior and middle managers were:

1. Long-serving (say over 10 years) with few formal qualifications
2. Long-serving with good formal qualifications
3. Short-serving (3 years or less) with good formal qualifications

	%
	%
	%

	%
	%
	%

3.0 SUCCESS

3.1 If financial/quantitative objectives were defined for the acquired company, please indicate for those objectives the percentage difference between the objective and the actual performance in the latest financial year

Exceeded
%

Fell Short
%

1. Turnover
2. Profit
3. Return on capital employed
4. Earnings per share
5. Cash flows
6. Share of market
7. Other - please specify

3.2 In respect of any non-quantitative objectives, could you please indicate the success of the merger so far and also give your opinion of the likely success during the next 2/3 years.

4.0 ACCOUNTING SYSTEMS

This section covers three aspects. Please indicate for each accounting control technique:

- a) its importance at the time of acquisition and now, (scoring as follows: not used 0; little importance 1; moderate importance 2; great importance 3)
- b) the date any changes were introduced
- c) the degree of conformity ultimately proposed, (scoring: no conformity 0; low 1; moderate 2; high 3).

	Importance to Acquirer		Importance to Acquired		Date of Change	Ultimate Conformity Proposed
	At Acquisition	Now	At Acquisition	Now		
4.1 1. Long range corporate planning	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Shorter term strategic planning	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Capital investment appraisal using discounted cash flow techniques	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Financial simulation models for decision making	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Defined limits for capital expend. at operating company level	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.2 1. Budgets in operating companies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Budget targets imposed upon operating companies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Participative budget-setting within companies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Participative budget-setting between HQ and divisions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.3 1. Monthly financial performance reports to corporate management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Weekly financial performance reports to corporate management: on cash flow	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
on profit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.4 1. Variance reports in operating companies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Control using cost centres	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Control using profit centres	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.5 1. Marginal costing for pricing decisions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Marginal costing for other management decisions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.6 1. Internal audit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Any other key controls introduced - please specify	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.7 1. Accounting reporting period					<input type="checkbox"/>	<input type="checkbox"/>
2. Financial year-end					<input type="checkbox"/>	<input type="checkbox"/>
3. Stock valuation policy					<input type="checkbox"/>	<input type="checkbox"/>
4. Depreciation policies					<input type="checkbox"/>	<input type="checkbox"/>
5. Annual accounts preparation procedures					<input type="checkbox"/>	<input type="checkbox"/>
6. Inflation adjusted accounts					<input type="checkbox"/>	<input type="checkbox"/>
7. Computerisation of accounting systems					<input type="checkbox"/>	<input type="checkbox"/>
4.8 Please name any additional reports that are now required by the parent company or controlling division					<input type="checkbox"/>	<input type="checkbox"/>

5.0 CHANGE PROCESS

5.1 Please tick the prevailing approach adopted for the introduction of the changes in Section 4. If, however, various approaches were used, please enter the sub-section numbers (4.1 to 4.8).

1. By imposition with little or no consultation to comply with parent company control practices
2. After consultation and agreement between both companies before the merger
3. After consultation and agreement between both companies after the merger

5.2 Please specify how the changes were introduced.

1. By the existing staff of the acquired
2. With staff assistance from the acquiring company (indicate amount of help: low, medium, high)
3. Under the guidance of a senior manager seconded from the acquiring company
4. Using independent consultants
5. Some other method - please specify

5.3 Please describe the major influences considered when deciding on the appropriate accounting controls to be adopted by the acquired.

6.0 Please provide the following statistical data for the last - full financial year before acquisition - if readily available:

	Acquirer	Acquired
1. Turnover £ Mil		
2. Profit before tax £ Mil		
3. U.K. employees		
4. Overseas employees		
5. Earnings per share		

SURVEY QUESTIONNAIRE (ACQUIRED COMPANY AS PRIME RESPONDENT)

Parent company name (acquirer)

Acquired company name

Respondent's name

Respondent's position

INTRODUCTORY REMARKS

This questionnaire is confidential for both person and company. Please feel free to add comments or qualifications to your answers. The use of the term 'merger' is to include 'takeover'.

This section covers four aspects. Please indicate for each accounting control technique:

- a) its importance at the time of acquisition and now, (scoring as follows: not used 0; little importance 1; moderate importance 2; great importance 3)
- b) the degree of technical difficulty experienced in introducing the changes, (scoring: great difficulty 3; moderate 2; little difficulty 1; no difficulty 0)
- c) the degree of resistance or disruption experienced amongst operating management, (scoring: high resistance 5; moderate resistance 4; little resistance 3; resigned acceptance 2; mild co-operation 1; enthusiastic co-operation 0)
- d) the degree of conformity ultimately proposed, (scoring: no conformity 0; low 1; moderate 2; high 3)

Importance		Technical Difficulty	Resistance	Ultimate Conformity Proposed
At Acquisition	Now			

- 2.1
 - 1. Long range corporate planning
 - 2. Shorter term strategic planning
 - 3. Capital investment appraisal using discounted cash flow techniques
 - 4. Financial simulation models for decision making
 - 5. Defined limits for capital expend. at operating company level
- 2.2
 - 1. Budgets in operating companies
 - 2. Budget targets imposed upon operating companies
 - 3. Participative budget-setting within companies
 - 4. Participative budget-setting between HQ and divisions
- 2.3
 - 1. Monthly financial performance reports for management
 - 2. Weekly financial performance reports for management:
 - on cash flow
 - on profit
- 2.4
 - 1. Variance reports
 - 2. Control using cost centres
 - 3. Control using profit centres
- 2.5
 - 1. Marginal costing for pricing decisions
 - 2. Marginal costing for other management decisions
- 2.6
 - 1. Internal audit
 - 2. Any other key controls introduced - please specify
- 2.7
 - 1. Accounting reporting period
 - 2. Financial year-end
 - 3. Stock valuation policy
 - 4. Depreciation policies
 - 5. Annual accounts preparation procedures
 - 6. Inflation adjusted accounts
 - 7. Computerisation of accounting systems
- 2.8 Please name any additional reports that are now required by the parent company or controlling division

<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
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3.0 REACTIONS TO CHANGE

3.1 What is the attitude of senior management to the changes in corporate planning?

(Please tick)

Reluctant acceptance
Fairly neutral
Enthusiastic

3.2 How does operating management regard the new operating controls?

(Please tick)

Much worse
Slightly worse
Same
Improved
Very superior

3.3 Please elaborate on the attitudes of operating management to the changes in controls. (For example, do production or marketing managers believe the new controls assist them to work more effectively?)

3.4 Please describe whether the new controls are more or less appropriate to your particular business, bearing in mind the need for effective response to changes in the business environment.

3.5 Have the changes introduced more formal reports and controls?

(Please delete)

Yes
No

3.6 Please describe whether these changes are generally welcomed by operating management.

4.0 CHANGE PROCESS

4.1 Please tick the prevailing approach adopted for the introduction of the changes in Section 2.0. If, however, various approaches were used, please enter the sub-section numbers (2.1 to 2.8).

- 1. By imposition with little or no consultation to comply with parent company control practices
- 2. After consultation and agreement between both companies before the merger
- 3. After consultation and agreement between both companies after the merger

4.2 To what extent was operating management consulted about the changes in operating controls?

(Please tick)

- No consultation
- Moderate consultation
- Extensive consultation

4.3 Please specify how the changes were introduced

- 1. By the existing staff of the acquired
- 2. With staff assistance from the acquiring company (indicate amount of help: low, medium, high)
- 3. Under the guidance of a senior manager seconded from the acquiring company
- 4. Using independent consultants
- 5. Some other method - please specify

4.4 Please describe the main difficulties experienced in introducing the changes

4.5 Please describe any significant changes in accounting staff since the acquisition

4.6 Please describe the major influences considered when deciding on the appropriate accounting controls to be adopted by the acquired

4.7 Were any of the following influences upon accounting controls specifically considered?

- Competition
- Pace of technological change
- Degree of structural differentiation
- Audit, legal and stakeholder requirements

Yes	No

5.0 SUCCESS

5.1 Please provide the following statistical data for the last full financial year before acquisition

- 1. Turnover £ Mil
- 2. Profit before tax £ Mil
- 3. U.K. employees
- 4. Overseas employees
- 5. Earnings per share

5.2 If financial/quantitative objectives were defined, please indicate the percentage difference between the objective and the actual performance in the latest financial year

- 1. Turnover
- 2. Profit
- 3. Return on capital employed
- 4. Earnings per share
- 5. Cash flows
- 6. Share of market
- 7. Other - please specify

Exceeded
%

Fell Short
%

5.3 In respect of any non-quantitative objectives, could you please indicate the success of the merger so far and also give your opinion of the likely success during the next 2/3 years

HOW ACQUIRERS ENDEAVOURED TO MINIMISE RESISTANCE TO CHANGES IN MAS

During the interviews some respondents mentioned the philosophy they had adopted towards introducing change and some specific approaches they had found to be useful. Many of the points listed below were mentioned by several respondents and they are not confined to successful acquirers.

Participation

A newly appointed managing director (from the acquiring company) took staff, who were anxious about the introduction of computerised systems, in line with group practices, to see a similar installation in a group company.

-Changes were discussed at all stages.

The future organisational structure, reporting relationships and systems were discussed before acquisition and a timetable for change was agreed with key people.

An acquirer selected an area of inadequacy - in this case budgeting - and commenced the change process there by introducing more participative procedures.

Explanation

A team of accountants visited all the branches of a newly acquired subsidiary to explain changes in systems.

An acquirer demonstrated that most of the accounting procedures in the acquired company were close to those of the acquirer and so minimised the apparent degree of change.

Reassurance

Staff were given reassurances in the offer document concerning job security.

Reward

The acquiring group ensured that staff in the acquired company received a good salary for the job and location.

A director of the acquired company was promoted on merit, rather than as a condition of acquisition, to the main board of the group.

An acquired company was encouraged to acquire a company to complement its product range.

A 'pet' scheme of the acquired company was supported as an act of faith, even though it appeared dubious. The failure of the scheme proved the acquirer to be right and this increased respect for the acquirer.

Acceptable pace

Some acquirers adopted a very relaxed approach to change and minimised interference.

An acquirer allowed time for executives in an acquired company to realise how useful a new form of reporting and controlling could be before more widespread changes were introduced.

A number of acquirers considered that staff in acquired companies expected changes following acquisition and this was the time to broach the subject of change, before the opportunity was lost. Delay, they asserted, could cause greater problems.

Respect

Staff from the acquirer involved with advising and helping the acquired company to change were of a high quality and able to command the respect of executives in the acquired company.

An acquirer, unsure of the desirable changes needed in MAS, discussed existing reports used within the acquired company and requested copies of key reports to be provided, but refrained from making premature changes which might subsequently prove to be inappropriate.

Exchange

Key staff from the acquired company were invited to the acquiring company to meet the people: most acquirers arranged visits the other way round.

Increased autonomy

The executive team in an acquired company, which had been dominated by an autocratic chairman, was accorded greater authority and autonomy to make decisions despite coming within the constraints of the formal control procedures of the acquiring group. For the first time the managing director was able to fulfil his designated role.

Matching of Organisational Diversity and the Adaptation of MAS

	Style of Acquisition (1)			Divergence of Organisational Variables (2)		Indices of Actual Conformity of MAS (4)			Actual Approach to MAS (5)	Degree of Post-Acq. Success (6)	Unsuccessful Prior to Acquisition (7)	(8)
	Environmental Turbulence			Theoretical Expectation		Actual Approach to MAS						
	Cat. 1	Cat. 2	Cat. 3	Cat. 1	Cat. 2	Cat. 1	Cat. 2	Cat. 3				
CM	7	5½	C	100	7	67	D	PS				
H	5	9	A ¹	100	73	89	A	<input type="checkbox"/> S				
C	5	13	B	100	33	89	B	?				
CT	7	10	C ¹	78	20	100	B	PF				
V	3	11½	B	100	60	100	A ¹	<input type="checkbox"/> PS		✓		
CM	7	7	C ¹	83	13	83	B	?				
V	5	11	B	100	40	100	A ¹	<input type="checkbox"/> S				
H	7½	6½	C ¹	33	40	100	A ¹	F		✓		
CM	5½	3	C ¹	100	40	50	C ¹	<input type="checkbox"/> S				
CM	6	7½	C ¹	100	47	78	A ¹	PF				
CT	7	7	C ¹	100	47	100	A ¹	PS				
H	6	6	C	100	47	100	A ¹	PF		✓		
CM	6	11	D	100	33	100	B	F		✓		
CM	7½	5	C	100	20	100	B	PS		✓		
CM	5	8	A ¹	100	60	100	A ¹	<input type="checkbox"/> F		✓		
CT	6½	8	C ¹	100	80	100	A	?		✓		
H	6	7	C ¹	100	73	100	A ¹	S		✓		
C	7½	15	D	100	67	67	A ¹	PF				
CM	3	13	B	83	60	100	A ¹	<input type="checkbox"/> PS				
CT	6½	13	D	100	33	100	B	F				
C	4	7	A ¹	78	47	89	A ¹	<input type="checkbox"/> PS				
C	8	13	D	67	13	0	D	<input type="checkbox"/> S				
CM	5½	15	D	78	20	0	D	<input type="checkbox"/> PS				
C	4	15	B	100	7	100	B	<input type="checkbox"/> PS				
CM	5	13	B	100	33	100	B	<input type="checkbox"/> PS				
C	4	13	B	83	80	100	A	PF		✓		
H	3½	12	B	83	80	100	A	PF				
CF	6½	16	D	100	40	100	A ¹	PS				
C	7	15	D	100	53	100	A ¹	F		✓		

(1 - 8) see next page

- (1) Style of acquisition, horizontal, vertical, conglomerate, concentric-marketing and concentric-technology.
- (2) The degree of environmental turbulence faced by each acquired company, at the time of acquisition, was measured by adding the response rankings for 'competition' and 'the pace of technological development in the main product group' (questions 2.2 and 2.4 respectively - appendix 10).
- (3) The divergence of organisational variables was measured by comparing the rankings - as at the time of acquisition - for each pair of acquisition partners for six variables. An explanation of these internal variables and of the methodology used to measure their divergence is given in appendix 9.
- (4) The 'theoretical expectation' identifies the approach which should have been adopted to modifying MAS on the basis of the combination of environmental turbulence (see (2) above) and the divergence of organisational variables (see (3) above). To facilitate the analysis the four cells (A,B,C and D) in figure 7 were extended to six and given scores reflecting environmental stability/turbulence and the levels of organisational match.

		Stable environment Score 0 - 5	Turbulent environment Score 5½+
High level of organisational match Score 0 - 6	Category 1	80 - 100	80 - 90
	Category 2	70 - 80	55 - 70
	Category 3	80 - 100	< 70
		A	C
Score 7 - 10	Category 1	80 - 90	70 - 80
	Category 2	40 - 70	40 - 55
	Category 3	80 - 100	< 70
		A ¹	C ¹
Low level of organisational match Score 11+	Category 1	< 80	< 70
	Category 2	< 40	< 40
	Category 3	80 - 100	< 70
		B	D

For example, company * (see table at front of this appendix) with an environmental turbulence score of '5' and divergence score of '9' had a theoretical expectation corresponding to cell A¹.

- (5) Conformity referred to the degree of commonality introduced, or intended, as between the MAS of the acquirer and those of the acquired (this is described in detail in Chapter 6). Conformity was identified for each of the three categories of MAS - category 1, planning techniques, etc.; category 2 operational controls; category 3, remote administration controls (see figure 6).
- (6) The conformity indices for each pair of companies were matched, as closely as possible to the indices specified in cells A to D. (The ranges of indices shown in the cells were based on a subjective interpretation of the desirable pattern of conformity as described in figure 7). For example, company * with scores of 100, 73 and 89 (categories 1, 2 and 3 respectively) fitted cell A and no other cell.
- (7) Post-acquisition success was defined as described in section 9.1 and table 23. S = successful, PS = partial success, PF = partial failure, and F = failure. Companies in a circle showed exact matching between the theoretical expectation (column 4) and the actual approach to adopting MAS (column 6). Companies in a box showed close matching - within one cell. For example, company * had a theoretical expectation of A¹ and an actual of A - so by reverting to the four-cell classification of figure 7 it was deemed to be matching (such reversion was only permitted within a common state of environment).
- (8) The ticked companies were those which were unsuccessful prior to acquisition (described in section 9.1).
- (9) Five of the six companies which were unsuccessful prior to acquisition and which proved to be partial failures or failures in the two post-acquisition years were subjected to considerably higher levels of conformity than the theoretical expectation. The cell matchings for ('PF'/'F' ✓) were:

Theoretical expectation

Actual approach

C¹
C
D
B
D

A¹
A¹
B
A
A¹

CHANGES IN IMPORTANCE OF ALL MATs IN ACQUIRED COMPANIES

	% of total sample in category (f)
Increase in importance:	
Change of 1 point	12.8
2 points	13.6
3 points	<u>19.0</u>
	<u>45.4</u>
No change in importance:	<u>50.0(*)</u>
Decrease in importance:	
Change of 1 point	2.6
2 points	1.0
3 points	<u>1.0</u>
	<u>4.6</u>

(*) This category is rather larger than might be inferred from earlier analysis, and is affected by the inclusion of two techniques which were little used, namely, weekly profit reports and weekly cash reports. If these techniques are excluded from the analysis, the no change category falls to 44.8 per cent and the increase in importance category rises to 51.2 per cent.

(f) Details extracted from appendix 3.